14. Enhanced Direct Access: the first decade

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1. INTRODUCTION

How does climate finance flow to developing countries? This chapter contends that climate finance delivery channels are important because they ultimately shape the impact climate finance can actually have. In this chapter, we trace the rise of the concept of 'enhanced direct access.' This innovative delivery modality devolves decision-making to where climate finance is actually used as much as possible. In the traditional model of climate finance delivery, funding decisions are made at the multilateral level. For example, the Global Environment Facility's (GEF) main decision-making body, the GEF Council, approves funding decisions. The GEF uses a range of multilateral institutions to serve as implementing entities and countries work with these implementing entities to design projects. In this model, the implementing entities served as the sole delivery channels of multilateral climate finance. Countries could not bypass these implementing entities and seek funding decisions from the GEF Council on their own.

Many developing countries argued that such a model of climate finance delivery was too restrictive. They argued that their own domestic institutions could also take on the work of implementing and executing climate finance projects and programmes. Direct access represents not only an attempt to increase the voice of developing countries in the international climate finance architecture but also a recognition of the need to take decision-making to a level where the relevant economic activities take place. For many of the Least Developed Countries, both mitigation and adaptation are highly local activities. Climate impact can vary greatly, even over small geographical areas, and will need locally relevant solutions that take on board local community knowledge and experiences. Therefore, planning and decision-making must be localised rather than centralised.

The Adaptation Fund (AF), a climate fund initially established under the Kyoto Protocol, paid heed to this concern. The AF allowed developing countries to have direct access to this fund. Direct access allows countries that have national implementing entities with robust standards and safeguards to serve as the implementing entities. In its pure form, direct access would involve delegating both oversight and governance functions, as well as funding allocation decisions, to implementing entities. However, as currently operationalised, funding allocation decisions continue to be made at the multilateral level while oversight functions have been delegated to the national level. The concept of enhanced direct access aims to delegate both oversight and allocation decisions to the relevant national level.

In July 2015, the Green Climate Fund (GCF) Board adopted the Terms of Reference (TOR) to launch a five-year Enhanced Direct Access (EDA) Pilot Phase. The objective of the pilot phase is to operationalise EDA modalities, 'including devolved decision-making and stronger local multi-stakeholder engagement.' The TOR stipulate that 'decision-making on the specific projects and programmes to be funded will be made at the national or sub-national level … This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or sub-national level.'

The idea behind the EDA Pilot Phase is not merely to devolve funding decisions (activity approvals) from the GCF Board to an accredited National Implementing Entity but also to test ('pilot') in-country funding mechanisms that combine a consolidation of international support at the national level through a national oversight and steering body and in-country devolved funding approval through local intermediaries.

The history of enhanced direct access we present here begins with a look at a number of precursors to the idea behind EDA. The concept of using devolved national and sub-national decision-making bodies for internationally funded activities is nothing new; it predates the debate concerning EDA in climate finance by at least half a century. There are numerous examples that could be construed as precursors in this context, some of which would have been eligible for funding under the EDA Pilot Phase. The selection of examples listed below highlights some of these historic precursors, chosen either for their prominence or for their specific characteristics, namely: the post-war Marshall Plan for European reconstruction, the African Autonomous Development Funds (ADFs), the Indonesian Kecamatan (sub-district) Development Programme, and the Brazilian Amazon Fund.

The subsequent three sections describe the three eras that can be distinguished in the evolution of the idea of EDA in the international climate finance regime; namely, the development of the concept, which lasted until the Cancún Climate Conference in December 2010, the Transitional Committee drafting the GCF Governing Instrument, and the current era of the GCF Board. The chapter concludes with a forward-looking analysis and identifies how the EDA concept may evolve in the future.

2. PRECURSORS TO THE ENHANCED DIRECT ACCESS

There is a long history of devolving decision-making to national and local actors in international development. The Marshall Plan, Autonomous Development Funds, Indonesia's Kecataman Development Program, the Amazon Fund, and SUNREF are all examples that illustrate the principle of devolution in practice. We deliberately selected examples of international public finance being delivered through innovative modalities. In particular, we sought out examples that illustrated how decision-making on programming had been devolved. All of these cases highlight attracting finance from different sources, engaging with public and non-governmental actors, and supporting implementation. These case illustrations also help to generate insights that are relevant for the GCF as it seeks to institutionalise direct access as a modality. While enhanced direct access was a reorientation of how climate finance programming had been practiced within the climate regime, the notion of devolving decision-making in development assistance was not novel.

2.1 The Marshall Plan in Germany (1948–1952)

In June 1947, the US Secretary of State George Marshall announced a European Recovery Programme (ERP). Under the ERP, which became popularly known as the Marshall Plan, the US provided one per cent of its GDP over four years to support the recovery of post-war Europe.

This amounted to USD 13.75 billion (roughly EUR 122 billion in current terms), which was distributed across 18 countries, with Germany receiving USD 1.42 billion (EUR 14 billion).

The Plan used two related but distinct mechanisms. First, raw materials, food, machines and other goods were purchased in the US and allocated to ERP recipient countries, where they were sold in the local currency; and second, the proceeds were collected in so-called counterpart funds at the central banks for domestic investment purposes. The Plan was administered by the Washington-based Economic Cooperation Administration (ECA), created by the Economic Cooperation Act of 1948 as an agency of the US Government, under the guidance of the Organization for European Economic Cooperation (OEEC).[1] It followed traditional centralised decision-making practices: the ECA was a huge organisation with more than 3700 staff; a head office in Washington; and a European head office in Paris, all busy 'elaborating detailed guidelines and rules and with ensuring their scrupulous observation', according to Heinrich Harries, author of a history of the implementation of the Marshall Plan in Germany (see Harries 1998, on which much of the section below builds). According to Harries (1998), the ECA required the Germans to submit detailed plans and substantiations for each project for approval at multiple levels.

At the heart of the Marshall Plan implementation in Germany was the establishment of the Kreditanstalt für Wiederaufbau (KfW) in 1948. The aim, from the beginning, was not to set up a conventional bank but rather a 'capital distribution agency' that would pass on the counterpart funds to three central institutions: the Industriekreditbank (IKB) for industry; the Landwirtschaftliche Rentenbank for agriculture; and the Bau- and Bodenbank for construction of housing. 'From the outset we wish to avoid the scenario of a large institution entrenching itself with a huge bureaucracy and encroaching on the territory of the established banks', said Alfred Hartmann, Finance Director of the Wirtschaftsrat, in August 1948. The demand of the Americans to have a decentralised body was supplemented by the principle of bank transmission; routing the loans through the banking industry. Initially, KfW granted blanket loans against mortgage bonds in the housing and agriculture sectors. It was reluctant to do so in the manufacturing sector, however, much to the chagrin of the IKB, which was keen to secure maximum market shares in favour of its small and medium-sized clients. KfW was able to progressively simplify its transmission procedure in subsequent years. KfW has no branch offices of its own but partners with savings banks, cooperative banks and commercial banks. These banks conduct the appraisal of the borrower, evaluate their plans and decide whether to finance the project and to apply for a loan from KfW. Once the loan has been approved by KfW, the banks on-lend to the borrower (KfW 2021). The bank and the borrower usually know each other already, making it easier for the bank to judge plans more accurately, and a relationship of mutual trust usually exists, which facilitates the loan decision. In some promotional products, especially in start-up-financing, KfW facilitates the granting of a loan by assuming part of the liability; it assumes up to 80% of the credit risk in its promotional programme ERP Gründerkredit StartGeld.

In short, in Germany, KfW uses precisely the sort of in-country devolution of funding decision that is meant to be one of the hall-marks of programmes under the EDA Pilot Phase. It should also be highlighted that it was the German authorities who were driving from the outset for this model, and that it has proven to be highly successful in engaging local stakeholders on a large scale.

2.2 Autonomous Development Funds (1995–97)

In 1995, the Swedish Dag Hammarskjöld Foundation (DHF) and the African Association for Public Administration and Management proposed the idea of African Autonomous Development Funds (ADFs). The model envisaged a public but politically independent institution catering for both government and civil society, with the ADFs acting as funding, not implementing entities, aggregating finance from a variety of sources (Müller 2009). According to the report of an expert consultation on the role of these autonomous funds, the ADFs were proposed in response to concerns and conclusions including (Dag Hammarskjöld Foundation 1995) the recognition of the delivery mode and trust as important variables in determining the effectiveness of foreign aid; the need to tackle the assumption that more donor control translates into more positive results; and a recognition of the need to devolve decision-making, information flow and resource allocation to the local level.

The overall aim of the ADFs, according to the report, was to encourage greater innovativeness and effectiveness in the use of development resources by complementing existing transfer mechanisms (such as direct resource transfer to governments or non-governmental organisations).

Göran Hydén, who at the time was Chairman of the Board of Trustees of the DHF and instrumental in developing the idea of ADFs, explained in Hydén (1999) that the prime motivation behind the ADF project was 'the idea of reforming foreign aid so that it becomes more accountable to constituencies in the recipient country'. The ADF model would seek to instil such accountability by being demand-driven in the delivery of foreign aid. Hydén recognised that it was important for African stakeholders to 'genuinely conceive and own' such projects.

Both government and local-level actors were meant to be part of the ADF project. Government was meant to be involved in three different ways: approving the establishment of ADFs by signing a contract with one or more donors to that effect; as part-owner of the fund; and as an applicant. Specific government departments at the central or local level could compete for financing from the ADFs.

Given that the ADF was an operative instrument rather than a funding mechanism, the extent to which grassroots communities and groups benefit would depend on how intermediary organisations – governmental or non-governmental – were capable of incorporating these groups and communities into their activities. Unfortunately, the ADF concept ultimately failed to generate the necessary support and interest, and the last major workshop on the topic was held in Tanzania in February 1997. ADF, however, provides us with a concrete illustration of how the attempt to devolve decision-making to the local level ran up against challenges.

2.3 The Indonesian Kecamatan Development Program (1998–2007)[2]

The Kecamatan ('sub-district') Development Programme (KDP) was launched in Indonesia in 1998 to address rural poverty and improve local governance. It sought to empower village communities by making block grants directly to sub-districts, and by providing intensive social and technical assistance to facilitate the building of village-level capacity and the promotion of participation, transparency and accountability in community-driven activities.

Of particular relevance for climate finance was the third phase in 2003, in which the focus shifted from poverty reduction to governance. The aim of this third phase was to build local government capacity to support community-driven development, and to support the development of permanent inter-village bodies to implement multi-village projects, mediate disputes and give villages a stronger voice vis-à-vis higher levels of government (Binswanger et al. 2010).

The programme led to the development of project-related skills among communities through a process of 'learning by doing'. This involved training in democratic decision-making and intensive awareness-building using a participatory approach. Moreover, the devolved model employed by the KDP had the knock-on effect of generating greater trust and fostering civic energy and ownership, allowing villages to negotiate amongst themselves and propose investments to the Kecamatan Council for approval.

KDP was initially funded through government budget allocations, donor grants and loans from the World Bank. The funds were transferred into a special designated account in the Bank of Indonesia and used to provide 'block grants' of Rupiah 500 million–1.5 billion (USD 50,000–150,000) directly to sub-districts (consisting of 20–50 villages) for small-scale infrastructure, social or economic activities. This decentralised approach was well suited to leveraging private and public lines of credit, targeting local priorities and building local capacity.

The KDP approach also demonstrated that it makes sense to use 'existing national mechanisms and institutional arrangements where possible, especially where they have proven experience in reaching vulnerable sections of society that will need climate finance the most, and in fostering local decision-making' (Sharma 2015).

The KDP approach shows a way in which climate funds can be successfully channelled on a large scale through local public-sector intermediation to local communities to enable them to implement locally identified solutions. In 2007, KDP evolved into a national-level 'incentivised community block grant programme': Program Nasional Pemberdayaan Masyarakat Mandirithe (PNPM), or the National Program for Community Empowerment. PNPM, now in its fourth phase, is the largest Community Driven Development project in the world, according to the World Bank.

2.4 The Amazon Fund (2008–present)

The Amazon Fund, managed by the Brazilian Development Bank, the Banco Nacional de Desenvolvimento Econômico e Social (BNDES), was established in 2008 with USD 1 billion pledged by Norway as part of the Norwegian International Forest Climate Initiative (NICFI), and with technical assistance from Germany to combat deforestation and promote the sustainable use of natural resources. The Fund is most noted for its results-based finance for REDD+, and for achieving high standards of transparency and accountability (Forstater et al. 2013).

As explained in some detail in Müller et al. (2013a), the NICFI funds are disbursed *ex post*, against national results, at the rate of USD 5 per tonne of CO_2, in respect of avoided emissions from deforestation below an agreed reference level. These NICFI payments for achieved results are then used by the Amazon Fund to finance future reductions and improve data and monitoring capabilities. The funds are allocated in accordance with Brazil's Plan of Action for the Prevention and Control of Deforestation in the Amazon (PPCDAM), as well as its National Plan for Climate Change (PNMC). It provides non-reimbursable loans, which are cancelled at the end of the project period once the BNDES verifies that the funds have been spent in line with agreed terms. As explained by Forstater et al. (2013), the Fund's major innovation 'was to establish a payment-for-performance fundraising model [in which] international donors provided financial support to deliver the objectives of the fund equivalent to the emissions reduction achieved'. These are estimated on the basis of hectares of avoided deforestation below a set baseline, average carbon stocks, and a fixed carbon price.

Crucially, funding decisions are made in-country, among Brazilian states and actors, with guidelines and criteria set by the Guidance Committee (COFA) of the Amazon Fund. Civil society is also active on the Guidance Committee, which itself is composed of federal and state agencies representing multiple sectors and stakeholder groups. Part of its success lies in its 'start-fast and evolve' model, which ensures that new institutions are able to learn and adapt. A clear lesson for the GCF from the Amazon Fund 'is that on-going learning cycles of review, reflection and design evolution should also be built into the process of institutional development of emergent national direct-access institutions' (Zadek et al. 2010).

The international contributor is not involved in making any activity approvals whatsoever; they are all taken in-country. NICFI is interested only in the aggregate result of these activities in terms of tonnes of CO_2 reduced. This is why the Amazon Fund 'is often held up as an example of how a nationally owned and managed, inclusive climate-change fund can be established' (Forstater et al. 2013).

2.5 AFD SUNREF

In 2005, Agence Française de Développement launched an initiative called Sustainable Use of Natural Resources and Energy Finance (SUNREF) to support local banks in developing countries and their clients in financing projects for sustainable natural resources management, with a focus on clean energy. It provides them with long-term concessional loans (green credit lines) and technical support to enhance their capacity to finance green projects. SUNREF recognises the potential of local bank branches to be powerful drivers in implementing local public policies with the MSMEs in developing countries (which often account for the bulk of the national private sector).

Since 2007, AFD has committed EUR 15 billion to the SUNREF programme in partnership with 80 local banks, and more than EUR 800 million had been disbursed by 2020 to finance green projects.

SUNREF also recognises that, despite its clear potential, the financing of green projects by local banks still continues to be limited, due to a number of technical barriers (national regulatory frameworks, lack of local expertise) and financial barriers (small businesses being perceived as being more risky, limited capital, skills remaining weak in banks).

The capacity-building programmes specifically involve helping banks to identify innovative green projects and appraise the corresponding loan applications. These programmes also attach particular importance to raising companies' awareness and supporting them in the design of their green investments.

SUNREF technical assistance for local banks, mostly provided for free, generally involves the development of communication and information tools, creation of a portfolio of energy efficiency and renewable energy sub-projects eligible for the credit line, training to understand sector risks, and assistance to create self-supporting green finance once programmes reach completion. There are many actors involved in the programme, and this is what creates the wealth of banking intermediation projects.

This section highlighted that the key elements of EDA, the ideas of a national consolidation of international public-sector funding streams, and the devolution of funding decisions to the national and sub-national levels, have been put into practice outside the confines of climate finance and long before there was any talk of climate change. The following section provides a historical analysis of how the concept of EDA gained traction in the climate regime.

3. DEVELOPING THE EDA CONCEPT: 2009–10

We can identify three distinct phases in the development and operationalisation of the concept of EDA. First, the Bali Action Plan and the negotiations leading up to the Copenhagen climate summit was a generative moment for the concept. Second, with the agreement to establish the GCF, the formation of the Transitional Committee to craft the design of the GCF was another major opportunity to embed enhanced direct access into the GCF. Finally, with the GCF now fully operational, the EDA is in a distinctly new phase of development. This section traces the evolution of EDA divided into these three phases.

3.1 The 'Reformed Financial Mechanism' and the Bali Action Plan

The Bali Action Plan, adopted at the thirteenth Conference of Parties (COP 13) in Bali in 2007, included climate finance as one of four pillars for a new negotiating process under the UNFCCC, for completion by COP 15 in Copenhagen two years later. It launched the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA), which held seven sessions between Bali and Copenhagen, developing ever-larger draft negotiation texts.

The idea of EDA was first introduced into the AWG-LCA deliberations on 19 May 2009 in a submission by the Indian Government (Paper No. 20C) which envisaged that a proposed Executive Board of the Financial Mechanism could 'authorise the national entities of developing-country Parties as designated by such Parties to approve activities, projects, [and] programmes for funding', and that there would be 'relevant assessments for disbursement to the designated national funding entities of the developing-country Parties' (p.111).

'Enhanced direct access' builds on two elements. The 'direct access' terminology clearly reflects the eponymous access modality of the AF. This 'direct access' modality of the Adaptation Fund was established in December 2007, when the CMP3 decided 'that eligible Parties shall be able to submit their project proposals directly to the Adaptation Fund Board and that implementing or executing entities chosen by governments that are able to implement the projects funded under the Adaptation Fund may also approach the Adaptation Fund Board directly'(Decision 1/CMP.3, para 29). 'Enhancement' needs to be viewed in terms of 'National Funding Entities'.[3] This can be traced back to Gomez-Echeverri and Müller (2009), which introduced climate-change funds as 'national climate-change decision and funding hubs' for 'in-country direct access to funding'.

On 22 June 2009, these same words were published as part of a Revised Negotiation Text under the section on Institutional Arrangements/Structure but were ultimately left out of the Report of the AWG-LCA to the COP in Copenhagen later that year. The section on Institutional Arrangements in the finance chapter had lost all references to institutional arrangements at the national level. Instead, it focused exclusively on the establishment of a Fund/Executive Board or a High-level Forum. This was then reflected in the Copenhagen Accord with the proposal of the GCF by industrialised countries and subsequently formalised in the Cancún Agreements, adopted at COP 16 in Cancún in 2010. Cancún thus proved to be a significant step forward for climate finance. Countries agreed to create a GCF, a Standing Committee on

Finance and a Transitional Committee (TC) for the design of the GCF. However, the finance section still made no reference to national institutional arrangements, let alone anything like EDA in particular.

3.2 The Transitional Committee

The push for EDA moved away from the arena of UNFCCC negotiations to the TC, and subsequently to the GCF Board. As the work of the TC got underway, the European Capacity Building Initiative (ECBI) convened a number of discussions to support the chair of the LDC Group, Carol Mwape. During these discussions, participants identified how enhanced direct access could help to resolve otherwise conflicting sets of expectations – that the GCF needed to start disbursing as soon as possible, and that its work should be 'at scale.' During these discussions, Müller proposed a definition for direct access based on those adopted by the Adaptation Fund Board (based on a submission he made to the TC on EDA, Müller 2011a). The final meeting of the TC itself took place on 16–18 October 2011 in Cape Town. On the penultimate day, during informal consultations, Carol Mwape provided the TC Chair with text that ultimately became part of the direct-access paragraph of the GCF Governing Instrument:

> 47. … The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.

The AF pioneered not only the implementation of the direct-access modality but also enhanced direct access through the approval of the proposal of the South African National Biodiversity Institute, a national implementing entity in South Africa which includes a small grants facility for enabling local-level responses to climate change (AF 2014). However, with the introduction of language supporting the inclusion of EDA in the governing instrument of the GCF, proponents of EDA had the mandate to carry over discussions on the EDA at the GCF Board. Since then, the main locus of the debate on EDA has thus been the GCF, due to the political momentum shifting to the GCF.

3.3 The Green Climate Fund

COP 17 in Durban adopted the governing instrument of the GCF. Once EDA was formally included in the GCF Governing Instrument, the discussion turned to how to support this access modality to safeguard the ambition and legitimacy of the GCF (IIED 2011; Vivid Economics 2012; IDFC and UNDP 2013; Berliner et al., 2013; CDKN 2013, Müller 2013a–d). For instance, enhanced devolution requires a 'parallel scale-up in capacity transfer' (Bird 2011, p. 17) to build fiduciary systems, transparent multi-stakeholder allocation systems, and appropriate legal and reporting arrangements (Vandeweerd et al. 2012). Moreover, the division of responsibility and liability between the global funding institution and national entities required clear boundaries.

This section traces how EDA was developed within the GCF between 2012 and 2015, including consultations in Delhi, Bali, Barbados and Oxford which proved instrumental in addressing accreditation and ultimately led to the approval of the EDA Pilot Programme at the tenth meeting of the GCF Board in 2015. This breakthrough rested on extensive consultations carried out and inputs provided in the lead up to this board meeting.

EDA quickly proved to be the preferred access modality for many countries; however, concerns were immediately raised about the challenge ahead for some to meet the criteria for accreditation (Vivid Economics 2012; Berliner et al. 2013). 'While this modality has the potential to greatly increase country ownership over fund allocation and coherence in accessing both multilateral and bilateral resources […] access through this track will likely require more substantial financial management capacities' (Vandeweerd et al. 2012). Organisations such as UNEP, UNDP and AfDB turned their attention to offering guidance for establishing transparent and effective NIEs. AfDB and others also proposed that entities already accredited under the AF could be allowed automatic accreditation under the GCF (subject to a potential maximum cap in terms of project size) to minimise the transaction costs associated with accreditation process (Vivid Economics 2012; Berliner et al. 2013).

At its third meeting (GCFB 3) in Berlin (March 2013), the Board noted that there was a convergence among the views of its members to commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities (Decision B01-13/06). At GCFB 4, in June 2013, board member Dasgupta was instrumental in having paragraph 47 operationalised in the Board decision to consider additional modalities to enhance direct access at its first meeting in 2014 (Decision B.04/06). At GCFB 5 in Paris, the Board set up an Accreditation Team with the request (Decision B.05/08) that it should oversee the development by the Secretariat of additional modalities that further enhance direct access, including through funding entities … for consideration by the Board at its first meeting in 2014. At GCFB6, the Ministry of Finance of Indonesia convened consultations on country ownership and enhancing direct access. At this meeting, there was an extensive exchange of experience of funds, such as the Brazilian Amazon Fund, the Indonesia Climate Change Trust Fund, the Bangladesh Climate Change Resilience Fund and the EU Global Climate Change Alliance. At this board meeting, enhancing direct access was on the agenda, but, due to time considerations, the issue was not taken up. Over the course of these deliberations, the GCF prepared three versions of a background paper. The first paper, Background Paper on Additional Modalities that Further Enhance Direct Access, including through Funding Entities (Version 1, GCF/B.06/15), was produced before the sixth board meeting.[4] No decision was taken by the board [GCF/B.06/18].

In early October 2014, the Secretariat published a completely revised version of the Background Paper and draft Decision on 'Additional Modalities that Further Enhance Direct Access, including through Funding Entities' (Version 2, GCF/B.08/09). The paper contains a chapter on the general structure, together with three illustrative examples of EDA (see also Müller 2014b), followed by a proposal for the GCFB to launch a pilot phase for enhancing direct access.

At GCFB 8 in October 2014 decision GCF/B.08/45 requested 'the Secretariat, under the guidance of the Accreditation Committee and in consultation with relevant stakeholders, to prepare terms of reference for modalities for the operationalisation of a pilot phase that further enhances direct access … for approval by the Board at its ninth meeting; these terms of reference will launch the pilot phase; and clarifies that the terms of reference will specify, inter alia: (i) The objective of the pilot phase; (ii) The type of entities to be involved; (iii) The specialised fiduciary standards required; (iv) The type of activities to be undertaken; (v) The timeframe of the pilot phase; and (vi) The financial volume of the pilot phase'. These suggestions were largely reflected in Version 3 of the Background Paper (GCF/B.09/05) and presented at the initial session on the EDA agenda item during GCFB 9 in March 2015. Ideas included a call to

National Designated Authorities (NDAs) for Expressions of Interest to participate in the EDA Pilot Phase, nomination of a gateway intermediary as a national funding entity, and a proposed national pilot programme (NPP) to be managed by the nominated national funding entity (see also Müller 2015). There was also a clear indication that the national pilot programme should be governed by a national governing body to ensure country ownership and that it should target project activities put forward by local stakeholders. GCFB 10 in Songdo operationalised EDA on its final day (9 July 2015), approving the TORs and launching a five-year pilot phase on enhanced direct access. This was the crowning moment of an arduous three-year process to operationalise the paragraph on direct access in the GCF's Governing Instrument, which mandated the Board to consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.

According to the approved TOR, the five-year EDA Pilot 'will initially aim to provide up to USD 200 million for at least ten pilots, including at least four pilots to be implemented in Small Island Developing States, the least developed countries, and African States.' The EDA Pilot 'will include devolved decision-making to regional, national, and sub-national entities … and stronger local multi-stakeholder engagement.' Decision-making on specific projects and programmes to be funded would be made at the national or sub-national level, and such direct access would be a means to increase the level of country ownership over those projects and programmes. This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or sub-national level (Müller 2014a). At the same time, mechanisms would be set up to increase national oversight and multi-stakeholder engagement at the country level. Countries could nominate an entity for the implementation of the country pilot (National Implementing Entity), such as a public-sector institution (development bank, national fund, etc.) or private-sector entity (commercial bank, investment fund, leasing company, etc.), operating at the regional, national or sub-national level. Country pilots would be overseen and strategically guided at the national level. The oversight and steering function should include the NDA or focal point, and representatives of relevant stakeholders, such as government, private sector, academia, civil society organisations, and women's organisations. In implementing country pilots, the designated NIEs would work with various types of local actors including public institutions, local bodies, non-governmental organisations, community-based organisations, actors from the informal sector, and private enterprises, particularly small and medium-sized enterprises (SMEs). A significant share of small-scale activities should directly support communities or SMEs through, for example, small-scale grants or extended line of credit. They would also involve various types of local actors in the development of potential projects and programmes, particularly local intermediaries and those addressing the needs of vulnerable communities.

4. IMPLEMENTING THE CONCEPT (2015–20)

With the GCF operational, we can identify three key moments and phases in how EDA was made operational. These three moments and phases are the New Delhi consultation, GCF programmes, and the AF.

4.1 The New Delhi Consultation

The New Delhi consultation was instrumental in crystallising the need for the GCF to support national institutions. These discussions helped shaped the policy discussions on how the GCF should design its implementation process. Oxford Climate Policy and Indian Keystone Foundation organised an informal roundtable consultation with senior government officials on consolidation and devolution of climate finance in India (Sharma et al. 2015). The purpose of this roundtable was to discuss national arrangements for climate finance, with a particular focus on access by local stakeholders, such as vulnerable communities and micro-, small and medium-sized enterprises (MSMEs), developments at the GCF, and to reach out to government actors who had not been significantly engaged in the climate finance discussions.

At this meeting, there was convergence on the principle that some form of consolidation and strategic guidance of climate finance flow at the national level would be helpful; for instance, through a national steering committee. Minimally, such a committee should be tasked with monitoring domestic climate finance flows, analysing their effectiveness, and providing recommendations of how shortcomings could be remedied. It was also mentioned that the effectiveness of such a committee could be increased if it had some resources – say, in the form of a National Climate Fund – which would allow it to carry out some of these remedial actions itself. At the same time, there was general agreement that to provide funding for local stakeholders (public or private) there is a need for in-country devolution of decision-making in general and of project approval in particular. In other words, it was recognised that local projects need local approval/intermediation.

4.2 GCF Programmes

At the time of writing (April 2021), the GCF website listed two EDA programmes[5] as having been approved, 'with several others in the pipeline' (GCF 2021b). They both involve small grants for adaptation (USD 10 and 20 million, respectively), which is 15% of the USD 200 million originally earmarked for the EDA pilot in 2015.

The first, 'Empower to Adapt: Creating Climate-Change Resilient Livelihoods through Community-Based Natural Resource Management (CBNRM) in Namibia', was proposed by the Environmental Investment Fund of Namibia, which was accredited as a GCF Direct Access Entity (DAE) in July 2015. It was in the 'project pipeline' for 80 days until Board approval in October 2016 and took a further 200 days to start implementation in May 2017. The EIF took on the fund management, implementing it through the Namibian Community-based Natural Resource Management (CBNRM) network comprised of NGOs and the University of Namibia, working in communal conservancies and community forests in the rural communal areas of Namibia. The project has two components: capacity-building and a resilience grant facility that 'empowers rural CBNRM communities to increase their resilience to climate change through direct access to climate finance.' The project was scheduled to last five years.

The second programme, 'Integrated physical adaptation and community resilience through an enhanced direct-access pilot in the public, private, and civil society sectors of three Eastern Caribbean small island developing states', was proposed by the governments of Antigua and Barbuda, Dominica, and Grenada, with the Ministry of Health and Environment of Antigua and Barbuda as the accredited direct-access entity. It was stuck in the pipeline for a staggering 581 days until it was approved by the GCF Board in March 2018; it took a further 503 days for implementation to start in July 2019. The aim of the project is to strengthen the resilience of the three participating Caribbean islands to climate-change-related threats, by improving the hurricane resilience of community buildings, homes and businesses, and through flood-prevention measures. Grants for community organisations, together with revolving loans for households and businesses, are used to improve the resilience of infrastructure to withstand Category 5 hurricanes. A funding mechanism for public infrastructure (including drainage and irrigation) and ecosystems also reduces disruptions to the water system, and improves soil and water conservation, which are all threatened by the results of climate change. The programme is scheduled to last until July 2023.

Clearly, this poor uptake was not what the GCF Board had in mind when they agreed that 'EDA should be a signature modality of the Fund.' What has been the problem, and what should be done?

The reasons for this poor uptake are no doubt manyfold, and in all likelihood led the GCF Secretariat to develop new 'Guidelines for EDA project development', which were launched on 18 January 2021 following a Web-based Open Dialogue held in two sessions in early December 2020. This Dialogue aimed to 'engage partners involved in locally led climate action, including GCF's accredited entities and NDAs/Focal Points, in an open discussion that will ensure that their views, insights and practical experience from the implementation of locally led climate projects are reflected in the development of the EDA Guidelines currently under development by the GCF Secretariat.' (GCF 2022), In the course of these dialogues, the designated DAE contacts of the two approved GCF EDA programmes made some interesting observations. Benedict Libanda, Chief Executive Officer of Environmental Investment Fund, Namibia, said that while EDA was meant to be a form of programmatic access, proponents were expected to provide information on every activity to be funded, as if the proposal were a traditional bundle of sub-projects, to be approved by the GCF Board. Diann Black-Layne, DAE contact for the second programme (FP061), said the pilot's rules created hurdles. She said that while the rules had been put in place to mitigate perceived risks, fiduciary and reputational, those risks were not really present at the level expected.

On 22 February 2021, the GCF Secretariat published an Update on the Enhancing Direct Access Pilot (GCF 2021b) for consideration by the GCF Board. According to this, there are seven active EDA submissions (four as concept notes and three as funding proposals), requesting a sum total of USD 134 million of GCF funding. The Update identified three reasons for the low uptake of EDA pilots. First, the EDA pilot was developed when countries did not have enough exposure with GCF requirements. Second, the EDA pilot guidance may not have provided adequate guidance. Third, because the entities that can put forward EDA proposals need to have accreditation for intermediation, there are not many institutions that meet the requirements to put proposals forward.

4.3 AF Programmes

The Adaptation Fund Board recently approved a pilot EDA funding window 'to further empower entities to directly identify and fund local adaptation efforts'. On 4 November 2020, the AF announced:

> The Board's approval of the pilot EDA funding window for national implementing entities (NIEs) will further empower entities to directly identify and fund local adaptation projects. EDA builds on

> the Fund's pioneering Direct Access modality, which fosters country ownership in adaptation. The Fund has pioneered EDA already by piloting it in several countries through locally led adaptation projects … this will build on those by creating an explicit window for NIEs to submit proposals of up to USD 5 million per country for EDA projects.

A background document on an EDA window under the AF's medium-term strategy lists the following potential benefits of EDA:

- increased country ownership over project activities, strengthening locally led climate action;
- greater in-country decision-making over fund allocation;
- raised profile of NIEs internationally and nationally;
- strengthened institutional and individual capacities at sub-national and local levels, and of domestic channels of directing resources to those levels;
- strengthened alignment of funded projects with domestic priorities;
- stimulation of innovation through the establishment of national or local mechanisms;
- increased efficiency in the management of donor funds.

While the GCF created the first thematic window in 2015, the AF created the first multilateral EDA climate programme the previous year. It established a Community Adaptation Small Grants Facility (SGF) in two pilot district municipalities in South Africa to incorporate climate adaptation response strategies into local practices so that assets, livelihoods and ecosystem services are protected from the climate-induced risks associated with expected droughts, seasonal shifts and storm-related disaster events. A June 2020 review of the programme found that the project:

- made significant learning contributions to bringing climate intervention decision-making nearer to beneficiaries;
- brought about tangible benefits that reduce vulnerability and increase resilience to climate change;
- created intangible benefits, including a sense of ownership and potential sustainability of the intervention;
- arguably resulted in more transformational outcomes.

5. PERFORMANCE-BASED EDA

The hallmark of EDA is a devolution of funding decisions to the lowest possible level. Given that performance-based payments are made *ex post*, the funding decision is, by definition, at the lowest possible level; namely, with whoever executes the (mitigation) activity. Performance-based EDA, in this sense, is the 'purest form' of EDA. In the Ghosh et al. (2012) proposal, Quantitative Performance methods using *ex post* rewards for mitigation performance would have four core elements: counterparty selection, definition of results, setting prices, and setting transaction quantities. This section discusses two concrete examples of how performance-based EDA has been considered.

5.1 The EESL Indian Carbon Fund and Auction Facility

The EDA proposal for a Carbon Fund and Auction Facility (see below) submitted to the GCF by Energy Efficiency Services Limited (EESL), an Energy Service Company founded by the Indian Ministry of Power in 2009, is based directly on the Financing for Energy Efficiency Project (FEEP). FEEP is an initiative led by the Bureau of Energy Efficiency (BEE) targeted towards medium, small and micro-enterprises. The proposed Carbon Fund and Auction Facility aims to amplify the financial support for MSMEs to enable EESL to multiply the scope for energy efficiency (EE) transition in the segment. Processes for measuring and verifying emissions reduction for MSMEs, as well as supporting mechanisms for adoption and implementation of EE solutions, will be developed and rolled out. The project is planned to be completed in four years. This will be a pioneering programme for the Indian MSME segment, focused on developing and piloting processes tailored for MSMEs, and on building their 'readiness' to participate in future carbon markets. The pilot for this Carbon Fund and Auction Facility is envisaged to roll out in two broad phases: a development phase (lasting for two years) and a deployment phase (starting from the third year). The objectives in the development phase are to develop and roll-out processes, to lay the groundwork for supporting and encouraging MSMEs to transition to EE, and to establish viable methodologies and MRV processes for estimating and verifying emissions reduction. There are three main work streams under the development phase. The 'Awareness, Training and Capacity Building of Key Stakeholders: Creating an enabling environment' stream will involve conducting awareness-building and training workshops for MSMEs for the chosen clusters for a pilot. It will also target associated stakeholders such as industry associations, local bank officers, energy auditors and technology providers to help them understand the potential of EE in MSMEs so as to create an enabling environment for EE transition. In the 'Developing processes for implementation, certification and MRV' work stream, EESL will work with experts to develop robust measurement, reporting and verification (MRV) methodologies tailored for the operating conditions of the Indian MSMEs, and set up a network of certification agents to generate the Certified Emission Reduction Units (CERUs) needed for performance-based payments. EESL will also use its experience and expertise, along with stakeholder input, to identify the most appropriate technologies and to help MSMEs, with guidance from energy auditors and consultants, to procure and install these technologies. MSME units will also be offered technical assistance on preparation of DPRs and energy audits. Through its mass procurement system, EESL will place bulk orders for technologies to leverage economies of scale. It will bear a large component of the cost, which will be recovered under the contract period from energy savings, and obtain performance guarantees for the technologies from the vendors. In the 'Developing the Carbon Fund and Auction Facility' work stream, EESL, along with its knowledge partners, will design a Carbon Fund and a Web-based platform ('Auction Facility') to carry out reverse auctioning of CERUs. At the end of the first verification cycle, the first round of CERUs achieved will be issued to the MSME units by the certifying energy auditors based on energy savings. These will be purchased through the Carbon Fund and Auction Facility. After the pilot phase, it would be possible to integrate the Carbon Fund and Auction Facility into the Article 6.4 market mechanism of the Paris Agreement. To kick-start the process and establish the fund, a GCF grant will be used for buying the CERUs at a price that is within a pre-determined range. This is essential to reward the first-mover MSME units and also demonstrate the benefits of the system, thus building the confidence of MSMEs in a voluntary market-based mechanism.

Once the processes and supporting environment for the market-based mechanism are in place (through the steps detailed above), the price of the CERUs can be determined through a reverse auction facility. This will be the price at which carbon assets within the Carbon Fund will be sold, either domestically or globally. At this stage, the MSME units will have the option of selling their units at the price determined, or to retain them to sell to other facilities or markets which may exist at that time.

The approach and processes to be developed under this programme are replicable across MSME clusters and regions, and have the potential to start a cycle of transformation. The market-based mechanism proposed for financing the transition is replicable not only across clusters but also across other programmes in different countries. Once the MSME segment starts transitioning to EE measures, the transition cost of the technologies and the processes will fall, and overall cost savings from EE will increase. This will increase the demand for EE, which will also encourage R&D for EE technologies for those clusters, and thus further drive the segment. An EE transition induced in this manner will play a vital role in forming forward linkages; positively impacting operative and maintenance service providers and also spare-parts manufacturers, leading to employment generation in allied segments.

5.2 LoCAL Performance-Based Climate Resilience Grants

Quantity Performance Payments are not restricted to mitigation outcomes. Indeed, one of the success stories of using QPPs in the context of climate-change activities, the performance-based climate resilience grants of the Local Climate Adaptive Living Facility (LoCAL), is rewarding adaptation performance. LoCAL was conceived by the UN Capital Development Fund (UNCDF) following an extensive analysis that started at a conference on Local Government's role in Environment, Natural Resource Management and Climate Change in October 2009 (see Binswanger-Mkhize et al. 2010). In May 2010 UNCDF participated in Resilient Cities 2010, the First World Congress on Cities and Adaptation to Climate Change. The Congress highlighted the problems that local governments in both developing and developed countries face in accessing finance for adaptation from existing multilateral funds. The analysis was completed with a detailed review of the NAPA portfolios and the processes required to compile and finance them. Following this lengthy analysis, the LoCAL facility has been designed to overcome some of the bottlenecks in financing climate-change adaptation in LDCs by providing local governments with access to climate finance in an appropriate and relevant form. UNCDF (2010) discusses sharing knowledge and experience accumulated by UNCDF in designing, piloting, scaling-up and implementing Local Government Performance-Based Grant Systems (PBGSs) that are being adopted in a variety of countries. The Report also provides insights into the rationale and principles of PBGSs, including a discussion of the challenges that PBGSs seek to address, a comparative assessment of their impact, and an analysis of the technical and policy challenges faced in designing and implementing such fiscal instruments. LoCAL's performance-based climate resilience grants, building on that experience, provide a new instrument for climate change which guarantees programming and verification of climate-change expenditures, ensuring the needed additionality. From 2011, the Facility was tested in Bhutan and Cambodia with USD 1 million investment from UNCDF's own resources. Between 2014 and 2020 the mechanism mobilised USD 99 million and is expected to double that amount over the next few years, in particular through EDA. The objective of LoCAL is to promote climate-resilient communities and local economies by establishing a standardised and internationally recognised country-based mechanism (UNCDF LoCAL 2021). In doing so, it supports the integration of climate-change adaptation into regular local government development planning and increases the amount of climate-change funding available to local governments, in particular through top-up performance-based climate resilience grants. It works directly with in-country partners, who are responsible for the operation and management of the LoCAL mechanism through its four phases, namely:

- Design Phase. A formal expression of interest from a prospective LoCAL country launches a preliminary analysis of the necessary conditions for deployment, definition of the PBCRG system to the country context, and engagement of key stakeholders for Phase I.
- Phase I: Piloting. The first phase involves initiation in 2–4 local governments over 1–2 cycles of investment, collecting lessons and fine-tuning the mechanism.
- Phase II: Consolidation. The second phase takes place in 5–10 local governments in a country and involves demonstrating the effectiveness of the mechanism on a larger scale.
- Phase III: Scaling-up. The third phase is a full national roll-out of LoCAL, based on the results and lessons of the previous phases. LoCAL is gradually extended to all local governments in the country, with domestic or international climate finance, and becomes the national system for channelling adaptation finance to the local level.

Annual performance assessments support the process by identifying capacity needs and promoting incentives for performance improvements. In the event that a local government does not meet the minimum conditions for the following year, it will not receive the grants but will receive support in identifying and implementing corrective actions and targeted capacity-building. More broadly, local governments are encouraged to review their performance assessment and identify areas with potential for improvement, creating a virtuous cycle of reflection, review and improvement. To measure and strengthen the impact of the LoCAL mechanism, UNCDF engaged the World Resources Institute (WRI) to create the Assessing Climate Change Adaptation Framework (ACCAF).

This engagement, aimed at increasing climate finance, involves supporting national partners in identifying potential sources of climate finance, as well as working within participating countries on the distribution of their own fiscal resources for climate change. It also entails working with development partners and international funds for climate finance to increase allocations of climate funds that are available and accessible to local governments, and to make LoCAL a standard and recognised country-based mechanism for channelling adaptation finance to the local level.

LoCAL supports implementing countries in accessing international finance, including from the GCF, which sub-national bodies in LDCs and developing countries typically struggle to access. With LoCAL support, Cambodia achieved GCF accreditation in November 2019 for the National Committee for Sub-National Democratic Development Secretariat (NCDDS), which, as part of its mandate, engages local government bodies in adaptation activities in areas such as livelihood enhancement, infrastructure and water security. LoCAL has supported NCDDS in preparing and submitting a concept note for further scaling-up of the mechanism, which is under review by GCF.

In West Africa, Burkina Faso, Côte d'Ivoire, Mali and Niger have been working with LoCAL and the West African development Bank to develop a regional GCF funding proposal to mobilise climate finance for the deployment and consolidation of the LoCAL PBCRG system in these countries. Their proposal has already gone through several rounds of GCF reviews and, at the time or writing, is expected to be submitted to the GCF Board for approval in 2021. It focuses on building more resilient local economies and communities by providing access to climate finance for a wide range of local actors, especially local governments, SMEs and cooperatives. Securing GCF funding would allow deployment of the LoCAL mechanism in the form of PBCRGs and SME finance in up to 100 communes in the four countries, with the potential to reach approximately 7.49 million people.

Another four NIEs are supported in their accreditation efforts by LoCAL (in Bhutan, Mali, Niger and Tanzania), while seven additional countries are assisted in a similar way to prepare and submit concept notes, either with NIEs (Benin, Bhutan and Uganda), or RAEs (Fiji, Solomon Islands, Tuvalu and Vanuatu, with the Secretariat of the Pacific Community) when the country either does not have such direct access or fails to meet grant award fiduciary standards.

LoCAL applies principles of fiscal decentralisation and effective local planning and public financial management to climate change, as discussed in Sharma et al. (2015). It combines performance-based climate resilience grants (PBCRGs), which ensure programming and verification of climate-change expenditures at the local level with technical and capacity-building support (UNDCF LoCAL 2020). PBCRGs provide a financial top-up to cover the additional costs of making investments climate resilient and/or to finance climate-specific investments; they are channelled through existing government fiscal transfer systems (rather than parallel or ad hoc structures). International climate finance is channelled through national treasuries, right down to the local level. National ministries are involved in regulating the system. Delivering PBCRGs typically involves the following key steps:

- Climate information (including vulnerability and adaptation assessments), as well as needs and capacity assessments, are reviewed or undertaken to inform the process.
- In a participatory manner, local governments develop local adaptation plans or programmes, integrate adaptation into their own local development planning and budgeting processes, and cost and select adaptation measures to be financed through the grant.
- Grants are disbursed to support implementation of LoCAL investments in the context of local authorities' annual planning and budgeting cycles, and selected measures are implemented.
- Performance is appraised in terms of the degree to which additional resources have been used to build resilience and promote adaptation to climate change.
- Audits are undertaken as part of the regular national process. The assessment results inform subsequent allocations, and the process provides an opportunity for capacity-building.

Capacity is built at various stages according to identified needs, targeting the policy, institutional and individual levels. Often, local governments work with partners that support the capacity-building and planning necessary to mainstream adaptation into the decision-making process. These local partners vary case by case, but can include other projects and programmes that address adaptation, resilience and environmental issues more broadly.

6. CONCLUSION

Enhanced direct access rests on the principle of devolving authority and implementation decisions to the most appropriate level. As such, EDA builds on this long history of devolution in development finance. In climate finance, the GCF and the AF have sought to operationalise this concept; however, there is still room to grow. The GCF offers a number of support options to help national authorities prepare EDA programmes. This includes the Project Preparation Facility.

Making EDA fully operational means implementing both elements of the concept: funding allocation, and governance and oversight. Performance-based payments, as mentioned in the previous section, offer the clearest way forward to do that. Performance-based payments would also allow for a scaling-up and strengthening of implementation of enhanced direct access. By making payments contingent on actual results while according host countries the flexibility on how to achieve results, performance-based payments are the direction in which enhanced direct access needs to move.

We posit that EDA could, and some say should, become the signature access modality of the GCF. Climate-change funding, international and domestic, still suffers from a lack of reliable and efficient channels to genuinely reach the local level, which is where in many developing countries, particularly the smaller, poorest and most vulnerable, 'transformative action' has to take place. The EDA approach is directly aligned with the GCF's Updated Strategic Plan for 2020–23 (promoting locally led climate action and devolved financing approaches through DAEs) (GCF 2020). The GCF has a unique opportunity to pilot such channels through fit-for-purpose EDA.

NOTES

1. In 1961, the ECA was superseded by USAID, and the OEEC was superseded by the Organisation for Economic Co-operation and Development (OECD).
2. This section is based on Anju Sharma's insightful exposition of the KDP in Müller and Pizer (2014).
3. The first appearance of the notion of 'national funding entities' in a UNFCCC document seems to be in the Revised negotiating text of 22 June 2009 (pp. 158f.), itself reflecting a submission drafted by one of the 2008 ECBI Oxford Fellows who was closely involved in the relevant ECBI work at the time.
4. The main focus of the Paper was on trying to provide definitions ('operational understandings') of the notions of 'Implementing Entities' and 'Intermediaries', with a somewhat controversial assumption that the latter had to be capable of also carrying out the functions of the former.
5. Strictly speaking, the programmes are listed as 'projects', but since EDA is a form of programmatic access, 'programme' is used in this context.

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