

## What's in a name?

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### THE NAMING OF GCF ACCREDITATION CATEGORIES

#### Concept Note<sup>1</sup>

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*What's in a name? that which we call a rose  
By any other name would smell as sweet;*

Romeo and Juliet, Act II. Scene II.

A name can indeed be replaced without harm *if* we know what it refers to. But significant harm can arise if we use names without really knowing what they mean.

The Governing Instrument (GI) of the Green Climate Fund uses three concepts to refer to entities in the context of accessing GCF funds (see Exhibit [1] below): ‘Implementing Entities,’ ‘funding entities,’ and ‘financial intermediaries.’<sup>3</sup> However, the GI gives no explicit definition of these terms. This is problematic and needs to be remedied to give sufficient clarity to the GCF’s access and accreditation procedures, as the Business Model Framework paper prepared for the fifth GCF Board meeting explicitly acknowledges (paragraph 42.c, see [4]).

Numerous attempts have been made to remedy this, the latest one being the definitions of ‘implementing entity’ and ‘intermediary’ proposed in the paper on *Legal and Formal Arrangements with Accredited Entities* (see [2]) for the ninth Board meeting recently held in Songdo, South Korea. I myself have on a number of occasions tried to explain the original meaning of the concept of a ‘funding entity’ as used in the GI<sup>4</sup> (which for one reason or other was left out in that latest paper).

Most, if not all of these attempts have tried to define these concepts in terms of some intrinsic characteristics of entities. Thus it has been suggested that the relevant difference between funding

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<sup>1</sup> *This Note was written in the author’s purely personal capacity. The views expressed do not necessarily reflect the views of the bodies with which he is affiliated.*

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<sup>3</sup> Although strictly speaking only implementing entities and funding entities are referred to in the context of access modalities and accreditation. Financial intermediaries are referred to in the context of local intermediation under the Private Sector Facility, and it stands to reason that the idea at the time of writing was not that local bank branches should ever be accredited with the GCF.

<sup>4</sup> See, for example, Benito Müller, ‘Enhanced (Direct) Access’ Through ‘(National) Funding Entities’: *Etymology and Examples*: OIES Information Note on the Green Climate Fund Business Model Framework, April 2013.

entities and intermediaries be whether they are public or private sector entities. I myself proposed a differentiation between implementing and funding entities by reference to the degree of devolved decision making powers. The paper on *Legal and Formal Arrangements with Accredited Entities* defines intermediaries as having “the capacity to provide financing other than by means of a grant only.”

The problem is that any attempt to introduce definitions of this sort – or to introduce “new” concepts not found in the GI such as ‘accredited entity’ (see [2]) – has hitherto been viewed with considerable suspicion and received significant pushback from quite a few Board members.

I believe that one, if not the only, way forward is to abandon any attempt to define these concepts in terms of this kind of intrinsic characteristics, and simply make use of an accreditation typology which the Board has already accepted by differentiating between three “specialized fiduciary criteria” under which entities can be accredited, namely:

- [A] Project management,
- [B] Grant award and/or funding allocation mechanisms, and
- [C] On-lending and/or blending

In a way, the definition of ‘intermediary’ by the paper on legal arrangements (see [2]) may have already taken this on board, for it can be read as simply stating that an ‘intermediary’ is an entity accredited for on-lending and/or blending.

Similarly, ‘funding entity’ can be used to refer to an entity accredited for awarding grants (and/or allocating funds). This definition would follow the original meaning of the term, and the way it was subsequently used in the context of GCF accreditation categories (see [5] Table 4).

“Implementing entity” would then be a natural candidate for naming entities accredited for project management, were it not for GI paragraph 45 which uses this term for all accredited entities (see also [2]). There is a simple solution here: use the term ‘project implementing entity’ instead. Accordingly, we propose the following definitions:<sup>5</sup>

1. **Implementing Entity** (IE): an entity accredited by the GCF to access GCF funding.
2. **Project Implementing Entity** (PIE): an IE accredited for project management.
3. **Funding Entity** (FE): an IE accredited to award grants and/or allocate funding.
4. **Financial Intermediary** (FI): an IE accredited for on-lending and/or blending.
5. **Intermediary**: an FE and/or FI.

## Exhibits

[1] [Governing Instrument](#)

### C. Funding windows and fund structure

#### 2. PRIVATE SECTOR

43. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial

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<sup>5</sup> NB: Since entities can be accredited for more than one specialized fiduciary criterion, these categories are not mutually exclusive.

intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs.

#### **D. Access modalities and accreditation**

45. Access to Fund resources will be through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.

##### **1. DIRECT ACCESS**

47. Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. 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.

[2] [Legal and Formal Arrangements with Accredited Entities](#) (GCF/B.09/03, 25 February 2015)

##### **2.2 Implementing entities**

5. Although reference is made to implementing entities at various places in the Governing Instrument and in many Board decisions, there is no agreed definition of the term "implementing entity". The role of implementing entities is described in paragraph 45 of the Governing Instrument as follows:

*"Access to Fund resources will be through national, regional and international implementing entities accredited by the Board."*

##### **2.3 Intermediaries**

6. Similarly, the term "intermediary" has not been defined, although reference to "financial intermediaries" is made in paragraph 43 of the Governing Instrument. Many Board decisions also refer to "intermediaries" without giving a definition. The general understanding appears to be that intermediaries have the capacity to provide financing to projects and programme activities other than grants only, whether or not from sources other than, and in addition to, those provided by the Fund. A definition could be:

**Intermediary** means an Implementing Entity that has the capacity to provide financing other than by means of a grant only.

##### **2.4 Accredited entities**

7. The distinction between Implementing Entity and Intermediary appears to have been superseded by the rules applicable to accreditation as decided by the Board, primarily by decisions B.07/02, B.08/02 and B.08/03. Applicant entities can apply for certain types of accreditation. An applicant entity may, for example, choose to apply for accreditation against the basic fiduciary standard, and it may additionally apply for none, some, or all of the specialized fiduciary standards, each of which would allow the entity, once accredited for that particular standard, to operate within the bounds of that accreditation type. Accredited Entities will have been accredited for certain types, which may or may not be all the types for which the entity applied.

8. In this document, Implementing Entities and Intermediaries will from time to time be jointly referred to as Accredited Entities.

[3] [Additional Modalities That Further Enhance Direct Access](#) (GCF/B.08/09, October 2014)

8. Enhancing direct access is understood to mean the delegation of authority for approving individual activity proposals to the national level by accredited sub-national, national or regional IEs, which can also be understood as a funding entity.
9. The GI already recognizes the use of programmes by accredited entities; therefore a potential approach to further enhance direct access would have to take full advantage of this modality through frameworks of activities. Another potential area for enhancing direct access may include policy actions.
10. Modalities that aim to further enhance direct access could be undertaken by a wide range of potential accredited entities. A clear example of these can include national entities with capacity for intermediation with institutional capacities that correspond to the specialized fiduciary standards relating to grant award and funding allocation mechanisms.

[4] [Business Model Framework: Access Modalities – Accreditation](#) (GCF/B.05/08 24 Sept 2013)

“42. The following elements can be suggested as an initial set of matters to be considered for the elaboration of the criteria for accreditation of intermediaries and implementing entities:

- (c) What should be the definitions of implementing entities, intermediaries and funding entities and what are the minimum key institutional capacities expected in each of them?”

**“Table 1: Fiduciary principles and standards used by relevant funds and institutions**

Specialized fiduciary criteria:

- Project/programme implementation
- Funding mechanisms and systems (in the case of funding entities)
- Financial intermediation, blending and structuring”

“55. Additionally, the following matters may need to be considered, inter alia, to fully operationalize the Fund’s access modalities through accredited intermediaries and implementing entities:

- (e) Modalities to further enhance the access modalities of the Fund including through the use of intermediaries and funding entities. The potential opportunities and synergies with other funds can be explored in this context.”

[5] [Report of the Fifth Meeting of the Board, 8-10 October 2013](#)

**Annex V: List of acknowledged best-practice fiduciary principles and standards**

*Specialized fiduciary criteria*

*Table 4: Funding mechanisms and systems (in the case of funding entities)*

Fiduciary principles and standards:

- Grant awards procedures
- Transparent allocation of financial resources (including trust fund management functions)

*Table 5: Financial intermediation, blending and structuring*

- Grant awards procedures
- Track record in reimbursable lending activities.
- Transparent allocation of financial resources (including trust fund management functions)