



Capacity development for direct access to climate finance –

experience gained through GIZ's support work for national institutions

INTERNAL DISCUSSION PAPER BY ALEXANDER FRÖDE AND CLAUDIA ASSMANN

1. Introduction

THE QUESTION of how direct access to international climate finance works in practice has become an increasingly relevant aspect of the debate on the international climate finance architecture. Direct access is not only an access modality under the UNFCCC Adaptation Fund (AF); it is also a potential feature of the Green Climate Fund, the specifics of which are currently under discussion. "Direct access" allows accredited entities from recipient countries to access financial resources directly from the Fund without passing through an intermediary institution.

The aim is to increase the level of country ownership, oversight, and effectiveness of support, and to create stronger accountability of the recipient country to the funding mechanism. It is expected that direct access can help to ensure proper reliance on and harmonisation with national systems, plans and priorities, cut transaction costs, achieve better targeting of local institutions and facilitate their involvement. If current experience with direct access proves successful, it will provide an evidence base that can serve as a role model for future climate funding.

Climate finance support is increasingly in demand from partner countries that are seeking to take a position, put their adaptation and mitigation activities on a sound financial basis, and use the funding opportunities to advance their climate change mitigation and adaptation activities. GIZ has been asked to support National Implementing Entities (NIEs) in a number of countries seeking accreditation to the Adaptation Fund. With this internal discussion paper, we would like to share our experience in providing support for direct access and facilitate its wider use both within and beyond GIZ.

GIZ's support for the NIE accreditation process is embedded in a broader portfolio of support in the field of climate finance, which

includes assisting countries in planning for and accessing climate finance, managing funds, developing ways of financing mitigation and adaptation strategies and spending funds effectively and efficiently. For example, on behalf of Germany's Ministry for International Cooperation and Development, GIZ is supporting the design and implementation of national climate change funds in Indonesia and Brazil. At the request of the partner countries, GIZ is currently supporting over 30 countries with tailor-made programmes that focus on planning and implementing policies and concrete measures at all levels from national to local. In the area of direct access, GIZ's services may, for instance, focus on facilitating the accreditation process, building climate finance institutions or supporting the implementation of impact-orientated projects.

2. In which areas do partner countries need to build capacity for direct access?

IN GIZ'S PRACTICAL EXPERIENCE in working with partner countries, the direct access modality and the accreditation of NIEs to the AF presents the following concrete challenges:

1. Identifying the most appropriate institution

In many partner countries, the selection of a local NIE has proven to be a highly political process. The prospect of gaining access to international funds arouses great interest in the accreditation process from various political players and institutions. Often, institutions that would not normally qualify as an NIE, but are able to mobilise the necessary political support, are put forward for accreditation. These institutions often do not meet the fiduciary standards criteria, from which independent agencies within government with a separate budget structure and a specific mandate to work on climate change >



issues would be preferable. An application by rather unsuitable institutions that do not meet the AF criteria holds a high risk of failure within the NIE selection procedure and is likely to cause delays in achieving direct access to funds. These problems can be overcome by building capacities to address criteria for NIE selection and support the application process.

2. Delivering a convincing application

The availability of relevant information on the accreditation procedure is a crucial factor for a successful application. While the AF and other international institutions provide workshops, they often only deal with the first steps in the process. Partner countries often comment that they are not given sufficient information on the procedure and would welcome individual advice.

The quality of the application is a critical factor in accreditation and success or failure can hinge on it. In many cases, countries prepare inadequate applications and do not realise the need to present to the AF secretariat convincing proof that relevant institutional policies and procedures are not only in place but are also being applied. Language barriers may also present an obstacle in the application procedure as a whole. In many cases, the application process can be supported by provision of information, on-the-job training and advisory input.

In GIZ's experience, there are often misunderstandings concerning the nature of the accreditation process. Partner countries frequently perceive the work of the AF Accreditation Panel as a rather narrowly focused check on compliance with fiduciary standards. As a result, they either hand in an application without convincing proof or hesitate to hand in an application if they feel they do not meet all the criteria. In reality, the process conducted by the Adaptation Fund Accreditation Panel usually seems to be a systemic institutional analysis of strengths and weaknesses, which is carried out in a flexible way and in close dialogue with the applicants.

3. Meeting the fiduciary standards and providing evidence

The majority of NIE candidates have difficulty in complying with the fiduciary standards, i.e. the financial and administrative standards set by the AF, which an institution must meet in order to be eligible for accreditation. In many countries in which GIZ works, the institutions best capable to serve as NIEs were established or radically

restructured after 2007. Consequently, they often face difficulties in meeting some of the standards on procedures regarding aspects of financial integrity, institutional capacity, transparency and self-investigative powers.

In GIZ's experience, some of the recently established institutions have not developed a fully-fledged adaptation M&E system, use internationally recognized accounting packages or possess a policy of zero tolerance for fraud, and have little experience with carrying out appraisal missions and risk assessment themselves, although they have the potential to do so if adequately supported. Accordingly, administrative and technical capacity needs to be built to ensure that institutions can carry out the task of an NIE. Furthermore, they often lack adequate human resources or have new staff who need training.

4. Supporting successful project implementation

In GIZ's experience, a number of countries are seeking accreditation with a great deal of commitment but without clear ideas about potential projects that could be eligible for financing. NIEs often lack the skills needed to develop coherent and robust project proposals and implement them. Furthermore, choosing a project to be presented to the AF has proven difficult in cases where different political actors take different positions. After successful accreditation, when the NIE starts to perform its actual function of appraising, managing and monitoring projects, further capacity development will be needed in areas such as developing a project pipeline, supervising projects and using impact-orientated monitoring and evaluation systems.

3. Potential role of development institutions in supporting partner countries

THE ADAPTATION FUND'S direct access approach has elicited new requests for bilateral support. Partner countries are asking for reliable and neutral support activities that cover climate finance and are embedded in the context of climate policy support.

Long-term support could address the needs for capacity development mentioned above and, depending on the specific needs of the partner country, could include: >



- increasing transparency and implementing anti-fraud policies,
- training programmes (including on-the-job training) for administrative staff and project developers/implementers,
- establishing contact to experts,
- facilitating peer learning,
- undertaking institution building measures,
- supporting knowledge management.

If the future climate finance architecture is to work, it is vital that partner countries receive assistance in building the capacities needed for successful AF accreditation and implementation of adaptation projects. Currently, GIZ is not able to meet all the requests of its partner countries, but hopes to be able to extend its activities in this field in the future.

AN EXAMPLE OF GIZ SUPPORT

At the request of the Indonesian Government, GIZ supported a national climate fund that is likely to seek accreditation to the AF. The activities are embedded in PAKLIM (Policy Advice on Environment and Climate Change), a climate policy support programme that GIZ carried out for eight years on behalf of the German Ministry for International Cooperation and Development. The NIE accreditation process raised a number of questions, such as:

- Would the institution be an appropriate NIE?
- How should the accreditation process be organised?
- What action is needed to achieve better compliance with fiduciary standards?

GIZ organised and financed a mission of international experts to make an overall assessment of the aptness of this institution, identify capacity bottlenecks and develop a plan for how to organise preparations for the accreditation and structural support. These activities are now being carried out with support from the PAKLIM programme.

4. Further lessons learnt in GIZ's support work

- Accreditation to the AF needs clear leadership and commitment. On the political level, individuals with political power and the political will to support the accreditation are essential for successfully conducting the accreditation process in the country. On the working level, it is important to nominate a dedicated and knowledgeable individual who can provide prompt and accurate answers to the accreditation panel and serves as 'an advocate' for the accreditation process. In many cases, this person would need to be supported by on-the-job-training and should be put in contact with people in similar positions in other countries. Responsibility for supervising the implementation process as a whole and progress towards meeting the fiduciary standards needs to be clearly defined.
- Capacity development for NIE accreditation must be clearly understood as institutional capacity development. As the institutions applying are usually climate finance institutions, services provided cannot be separated from institutional development with regard to other aspects, such as planning and supervising climate change adaptation measures. In GIZ's experience, it is especially important to link the process of seeking access to climate finance with participatory programming in the field of adaptation to climate change, National Adaptation Programmes of Action (NAPA) and the preparation of National Communications to the UNFCCC. This ensures that financing priorities are identified on the basis of vulnerability.
- A crucial part for support work involves making the Adaptation Fund's perspective on the accreditation process understandable to the national institutions. In practical terms, the support may entail, for example, simulating an assessment of the documents provided by the NIE and helping partners understand the dialogue-based nature of the accreditation process. Furthermore, it is important to pass on experiences and lessons learned from other countries, as well as information from AF presentations, to those in charge of preparing the accreditation process. Very often they will not have attended the AF meetings and not all the relevant information is conveyed in the AF's written documents.
- National climate finance institutions are still in a stage of development. Many of them are technically able to carry out climate >

change-related projects and have a lot of expertise. However, as mentioned above, some of them do not yet fulfil the requirements for accreditation, such as long-standing experience in executing projects. This needs to be taken into account at an early stage during the accreditation process and the support work. Moreover, many of them are still undergoing profound institutional change,

SEEKING ACCREDITATION OR NOT

Not all partner countries are convinced by the benefits of the accreditation for direct access to the Adaptation Fund. National climate finance institutions often perceive the accreditation process and its requirements as complex and burdensome. They are frequently discouraged by the current cap on funding of 10 million US dollars per country and the risk of not being accepted as an NIE. Although the AF treats applications anonymously, accreditation failures will often find their way into the public discussion. This can involve a loss of reputation, possibly with consequences for specific staff members. In view of fast-track and other climate-related funding by many international donors, accreditation to the AF is not necessarily the easiest option for accessing funding for climate change-related activities.

However, in GIZ's experience, partner countries can profit from a number of additional benefits of accreditation:

- Applying for direct access to the AF helps countries develop a more informed negotiating position on the Green Climate Fund (GCF). Since it is likely that the GCF will also contain a direct access modality, the AF accreditation prepares them for possible accreditation processes in the future.
- It helps in preparing for accreditation as a GEF Project Agency within in the process of broadening the GEF partnership.
- It enhances visibility.
- It increases the possibility of attracting funding from other donors.
- It improves financial management and institutional capacity, which in turn has a positive effect on the overall efficiency of the institution.

such as transition from external to national trusteeship. The institutional support given should ensure that these changes do not harm their ability to function as an NIE.

- Supporting a number of partner countries in seeking NIE accreditation and using direct access successfully could generate numerous possibilities for regional synergies. They could be harnessed, for example, in a regional support programme on climate finance for Africa.
- From the institutional perspective, it is relatively seldom that all relevant ministries are involved in selecting an NIE and fully support the selected institution. Advisory activities should support NIEs that are part of the national institutional landscape on climate change rather than creating additional institutions that are weak and potentially have a sectoral focus. In this context, it is advisable to build institutions that can not only access international resources but also bundle and use national sources of climate change funding, such as tax revenue. This would also greatly enhance the effectiveness of climate change support and national coordination. ■

October 2011

CONTACT:

Alexander Fröde
Environment and Climate Change Division
alexander.froede@giz.de