Direct Access

Financing Climate Actions in Nepal

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Introduction

Climate finance plays a critical role in addressing climate change, ultimately contributing to limiting the global temperature rise below 2 degree Celsius as agreed in the Paris Agreement in 2015. The United Nations Framework Convention on Climate Change (UNFCCC) recognizes that the developed countries need to provide new and additional financial resources to the developing counties to support the latter's adaptation and mitigation actions[1]. It also says the special needs and situation of Least Developed Countries (LDCs) will be considered while providing these financial resources[2].

During the 15th meeting of Conference of Parties (COP), developed countries agreed to commit USD 100 billion a year by 2020 to support the developing countries[3]. This commitment was later reconfirmed in the 21st meeting of UNFCCC in Paris, France in 2015[4]. The UNFCCC has established several funds including Adaptation Fund (AF), Green Climate Fund (GCF) and Least Developed Countries Fund (LDCF) to facilitate transfer of finance from the developed to developing countries. However, the modality of transfer is still contended with both the developed and developing countries vying for a greater say in the management of these funds.

Generally, there are two accepted modalities in accessing funds by the recipient countries. First is a multilateral access modality in which developing countries gain access to climate funds only through accredited multilateral agencies or regional agencies, which manages and implement the projects/programmes by themselves through the local partners and executing entities. These institutions are called Multilateral Implementing Entities/ Regional Implementing Entities (MIEs/RIEs). Alternately, direct access modality allows developing countries to nominate national agencies to get accreditation in the climate funds. These accredited national agencies, called National Implementing Entities (NIEs), receive funds directly from the climate funds to implement programme/ projects on climate change. A variety of financial instruments such as grant, (concessional or non-concessional) loans, guarantee and equity are used to finance climate actions in developing countries.

This paper elaborates further the direct access modality in financing climate actions. It explains the opportunities and challenges of this modality in developing countries like Nepal and proposes a way forward to maximize the opportunity this has provided to finance adaptation and mitigation actions.

What is Direct Access?

Direct Access can be understood as a model, which allows developing countries to directly access international public financing for national and local actions designed to address climate change (Bird, N et al, 2011) without having to go through multilateral/ regional or external agencies. The government of recipient countries can nominate public, private, non-governmental or any duly registered institution(s) in the countries seeking Climate Fund Board's accreditation.

These institutions are called National Implementing Entities (NIEs) and, upon accreditation by the Board, become eligible to submit project/ programme proposals to the global climate funds and access finance directly. This model omits the facilitation and project management functions of multilateral, international, and bilateral entities in accessing international public finance. Instead, these functions are taken on by a national entity (Ibid), see Box 1.

1 *Article 4, United Nations Framework Convention on Climate Change (UNFCCC)*
2 *Article 4.9, United Nations Framework Convention on Climate Change (UNFCCC)*
3 *Point 8, Copenhagen Accord adopted by the 15th Meeting of UNFCCC COP at Copenhagen, Denmark in 2009.*
4 *Point 54, Paris Agreement adopted by the 21st Meeting of UNFCCC COP at Paris, France in 2015.*

Box 1: Definitions of NIEs and EEs

National Implementing Entities : National legal entities nominated by the Parties that are recognized by the climate fund board as meeting the fiduciary standards and demonstrating ability to comply, as the minimum, with the environmental and social policy and the gender policy approved by the Board. The NIEs bear the full responsibility of the overall management of project/ programmes financed by the climate fund, and will bear all financial, monitoring and reporting responsibilities.

Executing Entities: Organizations that execute the climate projects and programmes supported by the fund under the oversight of implementing entities.

The Adaptation Fund (AF) was the first among the climate funds to adopt direct access. Figure 1 below shows direct access modality adapted by the AF. Later the Green Climate Fund (GCF) adopted this model and has further built on this introducing the idea of an Enhanced Direct Access, an evolved modality.

Enhanced Direct Access Modality

Further building on the idea of direct access, GCF has devolved decision making relating to project funding and fund management to the countries. In the traditional direct access modality, functions like review and approval of programme/ project proposals are reserved for a technical committee and/or the Fund's Board and NIEs role is limited to implementing the approved projects.

However, the Enhanced Direct Access (EDA) modality entrusts the recipient country with authority to make decisions on specific sub-projects based on the approved programme proposal by the GCF. This includes screening, assessment and selection of specific pilot activities, multi-stakeholder engagement and oversight of project implementation Any entity submitting a programmatic proposal is advised to include a list of sub-projects identified with detailed description (e.g. objectives, financial structure, alignment with GCF investment criteria and results areas, implementation arrangement) of the sub-projects. Based on the Board's decision and criteria the accredited institutions in the developing country will receive a certain amount of funding and take decision relating to selection or approval of sub-projects to be implemented by the executing entities.

"Eligible parties shall be able to submit their project proposals directly to the Adaptation Fund Board and implementing or executing entities chosen by government that are able to implement the projects funded by the Adaptation Fund may also approach the Adaptation Fund Board directly'

-Paragraph 29, Decision 1/CMP 3, UNFCCC, 2007

'Recipient countries will nominate competent sub national, 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 project and programme.'

-Paragraph 47, Governing Instrument for the GCF

The GCF is currently pilot-testing the EDA modality. In this phase, GCF aims to support the pilot and enhance the robustness of existing institutions and processes in a sustainable manner, thereby contributing to increased country ownership (GCF, 2015). The USD 200 million for around 10 pilot projects, including at least four for LDCs, SIDs and African states has announced by GCF.

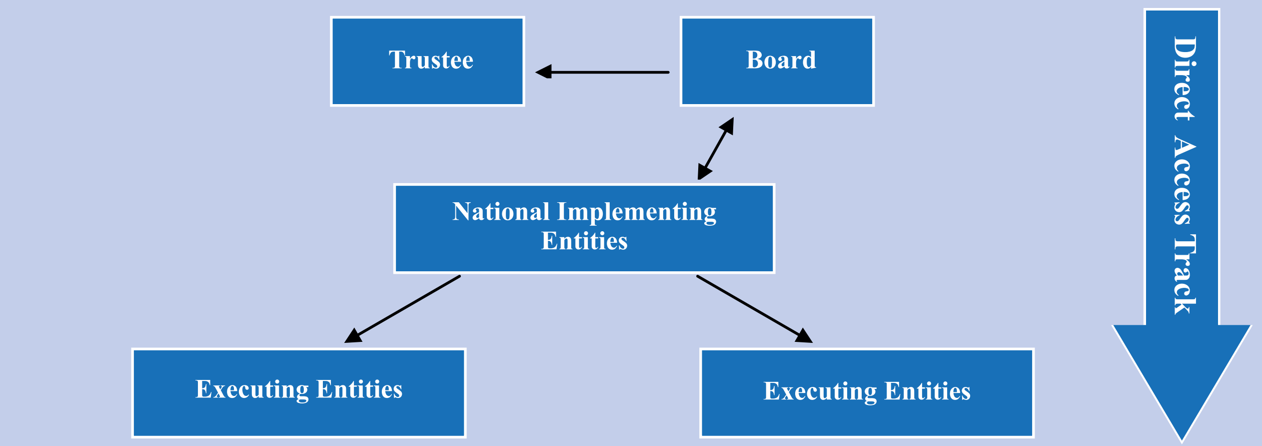

Figure 1: Direct access modality adapted by the Adaptation Fund

A table below summarizes the key functions/roles including the levels where they take place in accessing international climate finance through the three aforementioned access modalities.

Functions/ Roles	Multilateral Access Modality	Direct Access Modality	Enhanced Direct Access Modality*
Strategic management of fund (eg: resources allocation decision, adopting fiduciary standards, environmental and social safeguards, gender policy and other criteria etc.)	International level	International level	International level
Operational management of fund (eg: assessment and approval of funding project/programme proposals)	International level	International level	International and Country level
Project/programme management (eg: holding/managing approved funding, reviewing and endorsing activity proposals, M&E functions etc.)	International level	Country level	Country level
Project/programme execution (eg: day to day activity management, procure and contract for goods and services)	Country level	Country level	Country level

* In fully devolved Enhanced Direct Access modality.

These three modalities are not mutually exclusive. Each country is free to choose any of the modalities of access; these modalities can be used simultaneously.

Direct Access: Opportunities and Challenges

Direct access increases developing countries' stake in management and utilization of international climate funds. It helps to break international agencies' monopoly on these funds and reduces developing countries' reliance on these agencies in accessing climate finance. High administrative and human resources cost, and enormous service charges of these international agencies are often raised as a concern by the developing countries. With the enhanced direct access modality now, the developing country have the opportunity to design programmatic proposal that includes sub-projects. Upon GCF's approval the country can decided on identification, approval and implementation of sub-projects. This process is more empowering and enhances capacity of the country in appropriate utilization and management of the funds.

While celebrating new opportunity, there are some challenges that the developing countries need to overcome to benefit from this modality. Some of the key opportunities and challenges are listed below:

Building national capacity	Direct Access is not only about direct transfer of financial resources to developing countries. It also calls for adequate capacities, robust national systems and strong sense of accountability on the part of the developing countries to identify the best national entities to develop and execute bankable projects and programmes, and ensure effective and efficient financial management and fiduciary practices. In this connection, several developing countries are implementing readiness programmes to strengthen their institutional and technical capacities.
Country ownership	Direct Access modality devolves some decision making authority to the recipient country thereby contributing to their increased ownership. National Designated Authority (NDA) and National Implementing Entities (NIEs) are assigned with certain prescribed roles and responsibilities to facilitate the process of direct access. EDA devolves even more decision making roles to the countries.
Better alignment with national priorities	Many developing countries have formulated national policies, strategies and plans on adaptation and mitigation to combat climate change. This modality supports the programmes /projects funded by the climate funds to better align with the countries' priorities as laid out in their national legal documents.
Getting accreditation and meeting standards	Only accredited national entities can gain access to the climate funds. The accreditation process is rigorous and requires stringent measures and standards to be met by these entities to qualify for accreditation. Often, NIEs' accreditation is the most difficult step in the process as it requires NIEs to demonstrate high fiduciary standards, environment and social safeguards and gender policy as prescribed by these funds.

Accountability

Direct Access also demands strong accountability on the part of developing countries with regard to management and utilization of climate funds. NIEs will be held accountable for transparent and just utilization of the funds for the benefit of the people, who are poor and vulnerable to climate change. NIEs will be responsible for ensuring compliance with fiduciary standards, environment and social safeguards and gender policy of the funds.

A Way Forward for Nepal

Direct Access provides opportunity for countries like Nepal to access climate finance directly so as to contribute to the country's ambition of combating climate change and simultaneously achieve Sustainable Development Goals. Nepal has already started the process of seeking accreditation for National Implementing Entities (NIEs) to access resources from both Adaptation Fund and Green Climate Fund. Agricultural Development Bank of Nepal (ADBN) is seeking to become an NIE for Adaptation Fund, while Alternative Energy Promotion Center (AEPC) and National Trust for Nature Conservation (NTNC) are shortlisted to submit their application for accreditation to GCF.

The Ministry of Finance has already launched the 'Green Climate Fund Readiness programme in Nepal' with the objective of enhancing the capacities of potential NIEs and NDA to engage with the GCF.

Nepal needs to secure accreditation for the aforementioned three agencies. It is crucial to learn from these agencies' accreditation experiences, and identify and address bottlenecks in order to facilitate more efficiently the accreditation process of other agencies including private organizations.

Since this process opens up the opportunity for government agencies, private sector, non-governmental organizations of Nepal, it is imperative that all these entities work collectively to build the country's capacity to access climate finance so as to combat climate change. The Government of Nepal, particularly the Ministry of Finance and, Ministry of Population and Environment need to play a pivotal role in involving all stakeholders to engage in this process and work in concert for the larger interest of the country.

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