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Discussion Paper

Direct Access to Climate Finance: experiences and lessons learned

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ENVIRONMENT AND ENERGY

1. Introduction

The volume, sources, and type of climate finance has grown significantly over the past decade. Such growth is an extremely positive development and is critical to support developing countries pursue low-emission, climate-resilient development. However, while the scale of finance is increasing it is essential that due attention is paid to the mechanisms and modalities that are used to access and deliver that financing. Within the context of the United Nations Framework Convention on Climate Change (UNFCCC) governments have been negotiating various options that will facilitate the effective, equitable, and efficient delivery of finance. This process has reinforced the importance of strong national climate strategies as well as in-country institutional structures. A major theme within these discussions has been "direct access". However, while significant political attention is paid to this concept, there is a pressing need to undertake a thorough substantive and technical assessment of what true direct access means and how it can be put to work in the context of climate change.

This paper provides an overview of the concept of direct access to funding for climate change actions in developing countries. It focuses on the institutional arrangements that are necessary to facilitate and support direct access and is intended to inform the current and future discussions on direct access modalities, including within the design process for the Green Climate Fund (GCF). The paper begins by looking at what the term 'direct access' implies, what it is seeking to achieve, and how it has been defined to-date. The experience with this financing modality in other global funds is then reviewed. Based on this, a number of lessons learned are highlighted and several possible future arrangements for directly accessing international climate change-related funding are outlined.

While the paper recognises the wide applications of direct access across both multilateral and bilateral, as well as public and private, financing modalities, the discussion here is restricted to only multilateral public financing—i.e. that sourced from international public funds.

2. What is direct access?

Whereas developed countries have internal resources to respond to climate change (both in monetary terms and a wide skills base), in many developing countries the response is undermined by a scarcity of such resources and capacity. These limitations are heightened for vulnerable groups, such as the poor and women, who often face increased political, social and economic barriers to accessing and benefiting from the limited financial resources which currently exist. It is now widely recognised that removing such barriers would widen the effectiveness and equity of climate finance, promote the Millennium Development Goals, and drive sustainable development.

With direct access, the facilitation function normally played by multilateral, international and bilateral entities in accessing international public finance is taken on by a national entity.

Accordingly, the international community has paid much attention to the need for new and additional finance to support developing countries' respond to climate change. It is expected that considerable sums will be needed, and Annex II governments[1] have already made significant commitments of both 'Fast Start Finance' of $30bn between 2010 and 2012, and long-term finance of $100bn per year by 2020. The institutional arrangements that are evolving to channel this finance need to contribute towards a

[1] Annex II countries of the UNFCCC are required to provide financial resources to enable developing countries undertake emissions reduction activities under the Convention and to help them adapt to the adverse effects of climate change.

long-term architecture, which will include how internationally-raised finance can be accessed by developing countries in ways that are country-driven, catalytic at the national level, and that promote equity and therefore sustainable development.

'Direct access' is a concept that has evolved from this international discourse. Direct access is widely understood as a short-hand term for developing countries directly accessing international public financing in order to implement national and local actions to address climate change. Direct access implies that the facilitation and project management function played by multilateral, international, and bilateral entities is not used to access international public finance, and instead this function is taken on by a national entity. Direct access to finance as a concept is applicable across both multilateral and bilateral financing; moreover, direct access to finance can be considered in terms of both public and private finance. Direct access to private finance, for example, is illustrated by the Clean Development Mechanism. However, for the purposes of this paper, the discussion is limited only to public finance from multilateral sources. In this context, the change in institutional roles implied by direct access—and the associated discussion on direct access—exists in the context of a wider dialogue on responsibilities, vulnerabilities, and capabilities. All of these issues alter the terms on which climate finance is discussed and negotiated.

Direct access reflects a wide transfer of scaled-up financial resources for developing countries while also transferring capacities and building national systems to access, manage and be accountable for those resources.

For example, questions of responsibility are important parameters in terms of international public climate finance and, by extension, who has authority to access and manage it. The answer to this question depends in part on the source of the finance. There is already an appreciation that finance for climate change actions will be drawn from multiple sources, as outlined by the 2010 UN high-level advisory group on climate change financing (AGF). The AGF report identified four potential sources of finance: public sources, development bank instruments, carbon market finance and private capital. Much of the early attention has focused on the first of these sources, namely public funds. Many developing countries perceive this revenue source as a payment made by polluting countries along the lines of the polluter pays principle. In making such payments, the ownership of the finance is transferred to the recipient country and hence the control for such resources becomes a national rather than an international concern. In contrast, many developed countries provide international funding on a different basis, particularly for mitigation, seeing this additional finance as a payment to developing countries in return for stabilisation and/or reduction of GHG emissions, where the ownership of the funding remains with the donor country.

These two perspectives represent very different starting points to a discussion over access to finance. From the first perspective, financial resources, as the entitlement of developing countries, should be available to national systems within those countries. From the second perspective, direct access to climate finance is less about a transfer of ownership and stewardship and more about accelerating the pace and effectiveness of delivery. In this second perspective, direct access is not by default a preferred option. Indeed, it is the juxtaposition of these different perspectives that perhaps underlies some of the initial lessons and experiences of operationalising direct access, and sets the scene for the discussion in this paper on possible models moving forward.

Issues of capabilities also provide an important context for considering direct access. Discussions over different levels and forms of responsibility and vulnerability must be complemented by acknowledging differing levels of capacity to mitigate and adapt, which has a direct bearing on how countries access and then manage internationally-sourced finance. In this respect, regardless of whether the term implies a transfer of ownership over resources or not, direct access is not simply a financial term. It reflects a wider transfer of scaled-up financial resources for developing countries whilst also transferring capacities and building national systems to access, manage, and be accountable for those resources. This includes capacities to identify the best national partners to execute projects, capabilities to develop bankable projects and programmes, and abilities to undertake financial management and good fiduciary practices.

3. Definitions of direct access

In this political context, and despite the attention given to the issue over recent years by governments, the term direct access is poorly defined in a formal manner. In terms of multilateral public climate finance, it was mentioned within the decision to establish the Adaptation Fund (AF) at the Third Conference of Parties serving as the Meetings of the Parties to the Kyoto Protocol (CMP): *'Eligible parties shall be able to submit their project proposals **directly** to the Adaptation Fund Board and implementing or executing entities chosen by governments 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. However, practice under the AF has not followed the first part of this definition in a strict way, as all national proposals for funding are currently submitted by accredited national implementing entities rather than governments per se, after having received the endorsement of the country's Designated Authority (in most cases within the government Ministry of Environment).

This form of direct access allows for the implementation and execution of finance from the AF to be delegated to the national level, whilst the oversight function is retained at the international level by a Board with the legal capacity of the Adaptation Fund. The Board is accountable to the CMP, being under its guidance and authority, and it is the Board that instructs the trustee to disburse funds and signs the associated grant agreements with recipients. Under this arrangement, ownership of the financial resources of the Fund appears to rest with the Board at a day-to-day level but ultimately with the CMP.

Another reference to direct access appeared in the discussion paper on the governance of climate finance that the governments of the UK, Mexico, Norway and Australia circulated at COP15 in Copenhagen in 2009: *'There should be **direct access** to international finance where fiduciary standards allow and country level trust funds should be considered, among other alternatives, where **direct access** is not possible.'* In this presentation country level trust funds were not considered as being synonymous with direct access.

Direct access is also fleetingly mentioned within the terms of reference for the Transitional Committee appointed for the design of the GCF, as set out under the Cancun Agreements at COP 16: *'The Transitional Committee shall recommend to the Conference of the Parties for its approval at its seventeenth session and shall develop operational documents that address, inter alia:'... '(c) Methods to manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including **direct access**, with the objective of achieving balanced allocation between adaptation and mitigation;'* Appendix III, Decision 1/CP.16, UNFCCC, 2010.

These three references are among the very few statements that refer to direct access by official sources. A more detailed mapping of the governance arrangements underpinning direct access is needed to help clarify some of the potential for variation among direct access modalities. In particular, one fundamental issue is whether direct access should be limited to national government agencies or, as the AF allows, extend to national implementing entities that are not necessarily part of the government administration (but that have the government's endorsement). This question takes on greater significance as the range of financial instruments widens beyond grant finance.

4. The institutional architecture associated with direct access

There are three main components of the public architecture used to deliver international public finance from global funds. While the terms used to describe the different components vary by institution, clarity over the role of each element associated with the flow of public international funds is important to an understanding of the direct access arrangement:

- The first of these elements is a *fund manager or strategic oversight body* (usually a Board) that has the authority to make funding decisions and to instruct the trustee to transfer funds to finance selected proposals. In the case of direct access, such a body must have a legal identity to fulfil these functions so that it can enter into legal financial agreements with the recipient national entity[2].
- The second element is an *implementing body* (sometimes referred to as a supervisory body). It is this body's responsibility to identify, propose, oversee and appraise programmes/projects for the Board. The implementing body would normally be expected to hold the funds released by the trustee.
- The third architectural element is an *executing body*. Executing bodies receive funding to undertake programmes of work and may utilise sub-contracting arrangements to complete these activities.

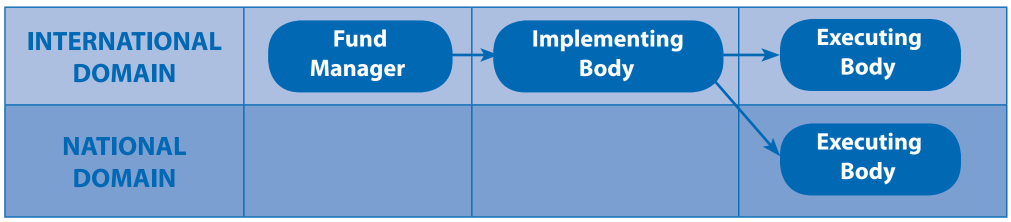
FUND MANAGER FUNCTIONS (SOME FUNCTIONS CARRIED OUT BY FUND SECRETARIAT)	IMPLEMENTING BODY FUNCTIONS	EXECUTING BODY FUNCTIONS
• Develops strategies, policies and guidelines of Fund • Reviews proposals submitted to Fund • Decides who receives funding • Instructs trustee to transfer funds to eligible implementing bodies • Monitors implementation progress • Accountable to donors on fund expenditures	• Identification of projects • Preparation of Project concepts • Appraisal of Project concepts • Preparation of project documents • Approvals and start-ups of projects • Supervision of projects • Evaluation of projects • Accountable to Fund on use of funds	• Management and administration of day-to-day project activities • Undertakes procurement and contracting of goods and services • Accountable to implementing body for use of funds

[2] In the case of multilaterally-implemented funds the trustee has traditionally provided this function, meaning the strategic oversight body does not require legal status. However, in the case of existing direct access modalities the trustee has not entered into agreements directly with national entities, hence the need for legal personality at the strategic oversight level.

The three main elements of this architecture give rise to three main access arrangements:

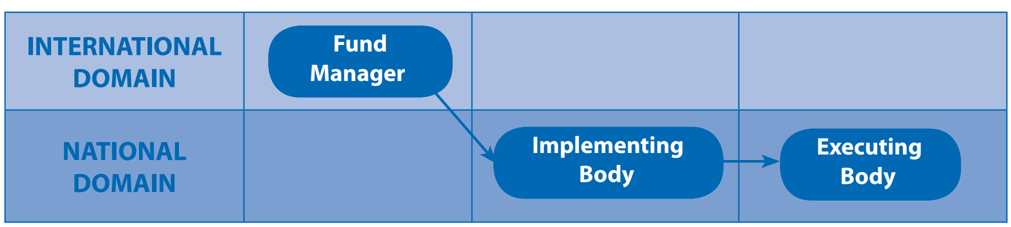
(i) ***Multilateral access:*** here fund oversight, management, and implementation are undertaken at the international level within a multilateral or international institution. Execution may take place at the national level (through national execution modalities within multilateral institutions) or may be managed from within the multilateral institution. Under this arrangement there is use of multilateral rather than country systems, with expenditure being channelled largely outside the national budgetary system.

a. ***Example:*** many international public climate funds use this model, including the Global Environment Facility (GEF) and Climate Investment Funds (CIFs).



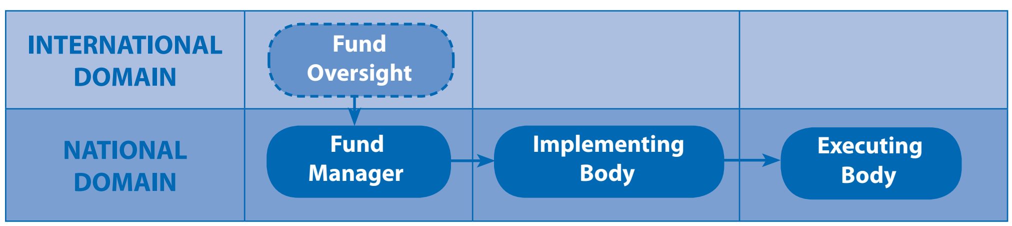
(ii) ***Direct access:*** here only the fund oversight and management function remains at the international level and both fund implementation and execution are delegated to the national level, usually to a national entity. In this case, the administration of funds is carried out by a national entity.

a. ***Example:*** the AF under the Kyoto Protocol has piloted this model on climate finance; however, within the health sector the GAVI Alliance and Global Fund to Fight AIDS, Tuberculosis and Malaria have delivered significant volumes of finance using this model.



(iii) ***Enhanced access:*** here all three functions – oversight and management, implementation, and execution – are delegated by the global fund in question to the national level. The key distinction between enhanced access and direct access (above) is that funding decisions and management of funds take place at the national level. Under such a scenario a country allocation or clearing house mechanism would operate at the international level to guide the level of internationally sourced funding to different countries. Other functions would then be delegated to entities at the national However, even within an enhanced direct access arrangement at least some degree of oversight is maintained at the international level, as the fund manager is required to report on the fund's activities and ensure sound practice among accredited entities[2].

a. ***Example:*** there are no major examples of enhanced direct access within the climate finance architecture. However, the report of the Transitional Committee tasked with the design of the GCF did state that the Board would "consider additional modalities that further enhance direct access, including through funding entities[3]".



[3] Funding entities are defined in a submission from the Least Developed Countries (LDCs) Group to the Transitional Committee as entities that are able to undertake fund management and oversight, implementation, and execution functions.

5. Experience of direct access arrangements within global funds

This section of the paper examines some of the lessons learned from three existing global funds that are channelling international public finance to developing countries: the Kyoto Protocol Adaptation Fund, the Global Alliance for Vaccines and Immunisation (GAVI), and the Global Fund to fight AIDS, tuberculosis and malaria (the Global Fund). Each of these funds uses a variant of the second type of direct access outlined in the previous section. The aim is to identify the key experiences and lessons from these funds' experience in delivering direct access.

5.1. The Kyoto Protocol Adaptation Fund (AF)

Description

The AF has developed direct access arrangements that allow eligible countries to submit funding proposals and receive approved funding through national implementing entities (NIEs) as well as through multilateral implementing entities (MIEs) if they so choose. This arrangement relies on national entities being accredited by the AF Board as having met certain fiduciary standards, related to financial integrity, institutional capacity and transparency of operation. It is important to note here that the standards development by the AF are wide ranging in scope, and include project management capabilities as well as basic fiduciary issues. The work to accredit NIEs for the AF began in January 2010, so there is limited experience to date with this arrangement as a full project cycle has not yet been completed for any NIE projects. Accreditation of multilateral organisations (termed multilateral implementing entities) took place in parallel to NIEs. Table 1 shows that funding to-date has largely flowed through MIEs, despite much political rhetoric in support of direct access.

The Adaptation Fund's initial lessons on direct access demonstrates the difficulty in balancing strong fiduciary principles and standards with the desire to increase the use of national entities for implementation and execution.

It is yet to be seen whether direct access will become a major funding arrangement for the AF without much greater investment to strengthen national capacity and clarify the accreditation process for potential applicants. However, Table 2 suggests a strong and developing demand by national organisations wishing to become NIEs, so the situation may change quite quickly if this demand is translated into effective readiness support. As an early step, Decision 5/CMP.16 mandated the UNFCCC Secretariat to organize three regional or sub-regional workshops on accreditation in order to make the accreditation process clearer to countries. To date, two workshops have taken place, the first in Dakar, Senegal, on 5-6 September 2011 for African countries and the second in Panama, Panama on 10-12 November 2011 for Latin America and the Caribbean. However, this does not directly deal with the critical issue of in-country capacities and perhaps reflects a more developed country view of direct access as simply a financial mechanism, rather than a wider approach to building national systems to access and manage climate finance directly.

Lessons Learned

The initial experience of direct access within the AF illustrates the difficulty in balancing fiduciary standards that have to be met with the desire to increase the use of national entities for implementation and execution. Indeed, there are a significant number of national institutions that have failed accreditation. The approach taken by the AF to ensure fiduciary integrity has been a strong focus on imposing strict its standards outright, rather than using the approach of minimum principles to which potential implementing entities must demonstrate equivalency. Not only has this led to a high failure rate in NIE accreditation but it has also led to complexities for some MIEsThese issues indicate that the level of capacity development support needed for the rapid development of NIEs was underestimated and instead supplemented with perhaps unrealistically strict standards for all entities with no in-country institutional follow-up.

Experience under the AF also yields some important lessons learned with regard to coordination, roles and responsibilities, and whether use of direct access has enhanced coherence with national planning processes. The AF Board adopted a policy where recipient countries nominate a Designated Authority that must endorse proposals from implementing entities before they are submitted to the Board. While this ensures that recipient countries have an effective veto over projects, this provision has so far fallen short of countries themselves submitting proposals that form part of a programmatic national climate change strategy.

In terms of actual project delivery, with only one project currently under implementation it is difficult to assess the success of direct access activities in terms of delivery of finance. However, as the AF evolves it will be essential to monitor this.

Table 1. Funding route of projects supported by the Adaptation Fund

	Number of funded projects	Number of endorsed concepts	Number of proposals awaiting assessment	Total projects submitted to AF
Multilateral access	10	10	12	32
Direct access	1	2	0	3

Source: Adaptation Fund website (www.adaptation-fund.org), accessed 3 September 2011

Table 2. Status of accreditation applicants to the AF Secretariat since inception of accreditation process

	National Implementing Entity	Regional Implementing Entity	Multilateral Implementing Entity
Screening by AF Secretariat	7	0	0
Under review by Accreditation Panel	7	1	3
Non-accredited	3	0	0
Accredited	6[4]	1[5]	9[6]
Total	23	2	12

4 Centre de Suivi Ecologique (Senegal), Planning Institute of Jamaica (Jamaica), Agencia Nacional de Investigacion e Innovacion (Uruguay), National Environment Fund (Benin), South African National Biodiversity Institute (South Africa), Protected Areas Conservation Trust (Belize)

5 West African Development Bank (BOAD)

6 Asian Development Bank (ADB), Inter-American Development Bank (IADB), International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), United Nations World Food Programme (WFP), World Bank (IBRD), World Meteorological Organization (WMO), and African Development Bank (AfDB)

5.2 The Global Alliance for Vaccines and Immunisation (GAVI)

Description

The GAVI Alliance provides cash-based support and centrally-procured vaccines to eligible countries based on proposals submitted by the national Ministry of Health, and endorsed by the Ministry of Finance and a national coordinating body. The default financing arrangement is that funding is disbursed from GAVI directly to the Ministry of Health. Country financial management assessments (FMAs) are carried out by the GAVI Secretariat to determine the level of fiduciary risk associated with this arrangement. Where these risks are considered high – for example because the country systems are weak, as in many fragile states, or where there is suspicion or proven misuse of funds – then appropriate strengthening measures are agreed with the government. In some cases, funding may be channelled to a GAVI partner organisation in country (e.g. WHO, UNICEF or the World Bank) to implement and execute the proposed programme rather than relying on government systems, hence falling back to a multilateral access modality. This flexibility of moving between different access modalities is an important characteristic of the GAVI Alliance.

Lessons Learned

The GAVI Alliance has been assessed by a number of donors as a highly effective multilateral fund; indeed, in the UK Government's Multilateral Aid Review GAVI was the top performing fund/institution. The reasons behind this are noted as an ability to balance strong country ownership with robust financial integrity and efficiency.

The GAVI Alliance's ability to balance strong country ownership with robust financial integrity and efficiency earned it a place as the top performing fund/institution of the UK government's Multilateral Aid Review.

In this respect, it is noteworthy that the GAVI Alliance works solely through the public administration, with project proposals submitted by the ministry of health and that same institution then being the recipient of funding. For the two other funds, there is an additional body—the Designated Authority for the AF and the Country Coordination Mechanism within the Global Fund—which are of varied composition. Within the GAVI model, the institution that is responsible for submitting within the government is also that receiving funds. This appears to leads to a strong focus on national government priorities.

Additionally, the GAVI Alliance has direct access and multilateral access balanced in a different way to the AF. Rather than operating two parallel access tracks, under GAVI direct access is taken as the default unless fiduciary assessments by the Secretariat suggest that multilateral access is needed for particular reasons based on national circumstances. The advantage of such an approach is that capacity building is then prioritised where countries do not meet the Fund's fiduciary standards.

5.3 The Global Fund to fight AIDS, tuberculosis and malaria (The Global Fund)

Description

The Global Fund is a second major global health initiative governed by an international Board and supported by an independent secretariat. Fund management within each participating country is overseen by a Country Coordinating Mechanism (CCM), which is a multi-stakeholder forum that submits national grant proposals to the Board. Significantly, this mechanism involves more than government agencies, and includes the private sector, civil society and international development partners. This institutional arrangement demonstrates national governments' willingness to broaden the decision making process beyond the government administration to address a major thematic concern. There are clear parallels to be made for how a national response to climate change may be governed. The CCM also nominates a Principal Recipient (PR) to receive funding direct from the Global Fund. The PR is then responsible for implementing activities using country fiduciary systems. Local Funding Agents (LFAs) are contracted to undertake the due diligence and financial monitoring function.

Lessons Learned

The Global Fund is certainly the most institutionally complex of the three funds reviewed in this paper. With CCMs, PRs, and LFAs at the country level there is potential for blurring of responsibilities. While government ministries and departments feature more strongly at the implementation level with much project execution taking place through their contractors, the practice of the Global Fund is interesting in that funding is channelled directly to this level from the global fund, bypassing the national coordination mechanism. The CCM—while positive in its inclusivity—is simply required to endorse proposals for funding within the application cycle; it is not then legally or financially involved in projects, although there is policy dialogue within the CCM on overall country programming. Moreover, the CCM model is potentially a challenging one to replicate within climate change given the wide number of public and private actors involved in mitigation and adaptation at the national level. Nevertheless, this perhaps necessitates redoubled efforts for effective coordination.

While serving as interim Principal Recipient for the Global Fund, UNDP supports the development of capacity of one or several national entities to take over the role of PR once they are ready and/or circumstances permit.

As with GAVI, the Global Fund takes direct access as the default modality. However, under this arrangement the Global Fund relies on UNDP to play the role of an interim Principal Recipient (PR) in 29 countries that are considered 'high-risk and low capacity' (out of a total of 140) and where no national entity has been identified to play this role. While serving as the interim PR, UNDP must support the development of capacity of one or several national entities to take over the role of PR when they are ready and/or circumstances permit. This capacity development support is mandatorily part of the total grant proposal for which money is specifically allocated. Significantly, it took the Global Fund eight funding rounds (over eight years) to formally build in capacity development support so that national entities could one day take over the PR role. Hence, although there is a strong commitment to direct access in the case of both the GAVI Alliance and the Global Fund, there are specific country circumstances that warrant the use of the multilateral access modality.

A final, and critical, lesson learned from the Global Fund is the question of recourse when financial irregularities occur. As has been widely reported in the media, the Global Fund has experienced some problems with PRs in a number of countries in Africa where funds appeared to have been misused ($44m out of the Global Fund's total portfolio of $21.7bn between 2002-2010). A key lesson here is that the use of country fiduciary systems must be underpinned by strong oversight of such systems by the fund at the international level. Indeed, the Global Fund has since strengthened its oversight procedures and now provides its trustee with assurance of the strength of the fiduciary standards of PRs before disbursements are made. In addition, an independent panel of high-level experts was established to provide advice and support to the Global Fund on strengthening its processes.

Table 3. Differing architecture associated with direct access for three international funds

Fund	Who oversees?	Who implements?	Who executes?
Adaptation Fund	Board (with Secretariat) →	Multilateral Implementing Entity →	Multilateral entity
		National Implementing Entity →	National ministries and contractors
GAVI Alliance	Board (with Secretariat)		
		Ministry of Health →	National ministries and contractors
Global Fund	Board (with Secretariat)		
			Principal Recipient (and sub-recipients)

International

National

→ Flow of funds

Table 3 draws out some of the architectural issues associated with the direct access arrangement as it has played out in these three global funds. All three funds are controlled by international Boards, supported by their own dedicated Secretariats. The Global Fund, GAVI Alliance and Adaptation Fund have also incorporated, to varying degrees, gender considerations into their policies, processes, investments and direct access approaches. To address the tensions between creating fund mandates and providing flexibility for fund recipients, for example, the Global Fund provides its country partners with incentives to incorporate gender into funding proposals and programming.

6. Experience of direct access type arrangements within development finance

The experience gained with development finance over the last decade has the potential to inform the design of direct access for climate finance. There has been a strong consensus that international development assistance should be designed so that it supports national development strategies. This is reflected in the near-universal support for the concept of 'country ownership' over the national development process, as codified in the 1995 Paris Declaration on Aid Effectiveness

Complementing the discussion over the principles underpinning the delivery of international development assistance, there has been considerable enquiry to determine what forms of aid are appropriate in specific country circumstances. The focus of this enquiry has been the choice between two different types of financial aid provided by donors: project aid, using parallel systems to those of the government, and direct budget support[7]. The use of budget support, in particular, raises many of the same issues that have been the focus of attention as the concept of direct access to climate finance has developed. One important lesson to be taken from the development cooperation experience is that the discussion over direct access cannot be limited to simply a choice of financial mechanisms, but is inextricably linked to questions of policy and capacity.

[7] Direct budget support can either be general, un-earmarked financing to national budgets or sector budget support to a particular theme within government spending. In both cases funds are not pre-packaged as projects or programmes.

Budget support is channelled to the partner government using the country's own allocation, procurement and accounting system. This could be a direct transfer between ministries of finance in a donor and recipient country, or could be a bilateral contribution to a national climate fund within a recipient country's budgetary system[8]. The circumstances where donors have employed budget support therefore provide valuable insights for direct access. Early on, Foster and Levy (2001) identified three sets of conditions required before direct budget support should be considered:

- An agreement exists between the international community and government on policies and expenditure priorities;
- The case for budget support can demonstrate specific benefits over alternative aid modalities;
- Any known weaknesses in public expenditure management should be addressed by additional safeguards, including the earmarking of support to specific expenditures or additional accountability provisions.

Table 4 highlights the architecture associated with the delivery of budget support and contrasts this with project aid that uses parallel systems to those of government. The first point to note is that traditional project-based support equates with the notion of multilateral access as it is perceived in climate change circles. Under this arrangement, the role of national bodies is largely confined to the implementation role and the flow of funds usually remains outside the national budgetary system. This architecture is radically altered with budget support, as the national ministry of finance plays a key role in the management of funded actions, with external funding being transferred into an account over which the government has full financial authority. There is also significant use of government systems for monitoring and accountability. However, in contrast to the early experience with direct access for climate finance there is no formalised role for national civil society or the private sector: budget support represents a government-to-government agreement.

Table 4. Differing architecture associated with development finance

Aid modality	Who oversees?	Who manages?	Who implements?
Project aid delivered using parallel systems	Donor Agency	Donor Agency	
			National ministries and contractors
Direct Budget Support	Donor Agency		
		Ministry of Finance	National ministries and contractors

International

National

Flow of funds

[8] In such circumstances fund oversight, implementation, and execution take place at the national level, although recipient countries are able to contract the support of international institutions if they so wish.

7. Lessons Learned from Direct Access to date

These experiences with direct access are instructive as the concept is discussed as an important part of the international public climate finance architecture. The Transitional Committee appointed for the design of the GCF, for example, has been exploring how to scale up direct access; it is critical that such developments are based on a solid understanding of the lessons to date.

Who receives funding?

The choice of funding recipients has a major impact on the functioning of direct access. Limiting recipients to just government ministries and departments appears to have led to successful funding arrangements in terms of volume of disbursement within the GAVI Alliance. Such approaches tend to be more coherent at the country level. However, is such an approach feasible for climate change? The vast array of stakeholders, actors, and sectors suggests that this could be a challenge. Indeed, the AF has taken an alternative approach with wide eligibility criteria. An important consideration in this scenario is what role the government plays in situations where non-state actors are able to receive funding. The AF requires government nomination of prospective implementing partners for accreditation, giving some degree of control. However, the by-product of this has been the use of very strict fiduciary standards and controls by the AF.

How to ensure sound fiduciary management?

The lessons learned in this paper suggest that simply focussing on the strictest possible fiduciary standards for accreditation of implementing partners does not in itself promote a successful fund. Strict standards alone appear to reduce access for both national and multilateral partners. Successful examples of direct access closely marry fiduciary integrity with capacity development. Rather than setting extremely high targets to be met by all entities in the AF, the Global Fund and GAVI have adopted a pathway approach. This requires demonstrable fiduciary integrity; where further improvement is needed, support is provided in two forms—capacity development for national institutional and project management strengthening, and through multilateral access to programme funding over the short and medium-term.

Direct access needs to be seen as more than a simple financial mechanism. It is part of a wider capacity development process to mobilise and programme additional domestic finance in order to promote national ownership and achieve climate and development objectives.

This is particularly important when conceptualising direct access as more than simply a financial mechanism, but itself part of a wider capacity development process to mobilise and programme additional domestic finance at the national level in order to promote national ownership and achieve climate and development objectives. It also highlights the importance of taking a country-by-country approach, as there is considerable variation in present capacity. To promote the development of direct access, it may be worth exploring the adoption of a step-wise approach that promotes the strengthening of the necessary system components and allows increasing access at an earlier stage than would otherwise occur. This is potentially very important should a non-grant direct access modality—potentially requiring more complex fiduciary capacities—be considered.

Who develops and proposes activities?

The appropriate balance between decision-making at the international level compared with the national is of course essential for direct access. However, experiences suggest that balance in roles within the national level is equally important. This is particularly important for the questions of coordination and endorsement. The GAVI model of the Ministry of Health preparing and submitting proposals, and then acting as the funding recipient, has been largely deemed successful at ensuring coherence with national priorities. While such an approach does not formally recognise other stakeholders, experience from the AF suggests that use of an endorsement system does little more to promote coordination among key partners. Similarly, in the Global Fund the CCM model encourages consultation and collective endorsement and submission of proposals; however, it is the recipients with whom the Fund actually signs agreements. These lessons point to an important trade-off between alignment of activities with government planning that promotes coherence and alignment with the more complex mix of priorities of national and sub-national stakeholders that promotes increased coordination. Under the direct access arrangement, country coordination and endorsement is clearly a critical issue and it is noteworthy that each global fund has developed its own approach.

Recourse

To be sustainable over the long-term, the funds that make use of direct access must be able to act effectively and swiftly if things go wrong. The case of the Global Fund is significant here; while its experience with financial mismanagement in a number of countries is of concern, the Fund's Office of the Inspector General was able to act to identify this misuse and take appropriate measures to suspend financial transfers. Such measures would likely need to be significantly strengthened if a direct access modality for non-grant instruments were used. Here some kind of sovereign guarantee, as used by the multilateral development banks for their transactions, would likely be needed.

8. Possible future scenarios for direct access

While direct access is a critical issue within contemporary debates on climate finance (at both international and national levels), the concept has recently benefited from a focused debate that has taken place through the Green Climate Fund's Transitional Committee. This exercise has provided an opportunity for policy-makers to consider how direct access could be operationalised at scale. The final section of this paper explores this question, with a view to informing current debates.

Recognising direct access as a financial-capacity transfer

Much of the negotiations on operationalising direct access have focussed on the importance of fiduciary integrity. Such concerns are vital. However, the way that international public funds ensure this integrity has had mixed experiences across those reviewed in this paper. The development of the AF's fiduciary standards appears to have been largely a technocratic exercise that has focussed on laying down specific requirements (e.g. such as audit by the AF itself) rather than minimum principles to which entities must demonstrate equivalency (e.g. that their own audit systems are in place); this has resulted in limited operationalisation of the direct access modality to date by the AF. An inclusive process to develop such standards might allow for the development of a more nuanced approach to standard setting that would recognise increasing use of country systems without compromising fiduciary integrity.

Moreover, it seems clear from contrasting the AF, GAVI, and the Global Fund that simply focussing on testing potential implementing entities against standards does not lead to long-term success in promoting direct access. Instead, the approach taken by both GAVI and the Global Fund—which provide adequate and substantive capacity development to recipient countries—an appropriate balance between results and ownership has been struck. This means widening current descriptions of direct access from simply a financial transfer from developed to developing countries to a more comprehensive financial-capacity dual transfer that builds both capabilities to deliver and ownership at the national level. This could help overcome the problems posed by the political questions of ownership of finance by developing countries compared to a focus on results by developed countries within the direct access discourse.

Finding a more country-driven approach in practice

Lessons in this paper suggest that direct access does not by *default* promote a more country-driven approach but requires a specific set of circumstances to do so. Moreover, existing experiences have encountered a trade-off between increasing the role of national government, and so integrating activities, and the need to involve a broad range of stakeholders at the national and sub-national levels, often leading to a more heterogeneous package of activities. Much of this trade-off boils down to the role of national government in approving and submitting funding proposals, and then receiving approved funds (as is the case for GAVI), compared to simply having an endorsement role for proposals going to the Fund in question (as is the case for the AF). The Global Fund experience perhaps offers a middle ground through its flexible approach to who can receive funding as principal recipients but strict and elaborate provisions for consultation and approval through the country coordination mechanism. This provides a balance between coherence and integration at the national level but also includes significant stakeholder engagement.

Greater coherence with multilateral implementation

Direct access and multilateral access together have been able to offer an integrated package of services to developing countries in many international public funds. Within climate finance, this has been more difficult because of the political context in which direct access is being promoted—i.e. as an alternative to business-as-usual multilateral access. However, a "two track" approach that gives recipient countries the option of different implementation and execution routes perhaps better recognises the important synergies and complementarity that can be achieved.

This complementarity can be achieved in two ways:

1. Using multilateral institutions to provide services in *particular circumstances and alongside direct access.* In all the funds reviewed, multilateral institutions continue to play a key role in project and programme implementation and execution; synergies between this role and that of direct access could be enhanced through an understanding of what modality is appropriate for different activities. For example, multilateral access is often appropriate in circumstances such as:

    - Where climate change-related actions are a high priority for the government and immediate access is needed to additional funding.
    - Programmes and projects that require a strong international (north-south or south-south) knowledge or technical transfer.
    - Activities where there are economies of scale to be generated by tapping into the technical expertise needed that does not yet exist at the national level
    - In challenging environments where environmental and social safeguards and fiduciary standards are not embedded at the national level, such as post-conflict states.

For activities other than these, direct access may be a more appropriate access arrangement.

2. Using multilateral institutions to provide readiness activities that facilitate direct access, such as institutional strengthening, support for building project management capacities and planning. A number of such initiatives are already underway and yielding initial lessons learned and experiences that can inform scaled up efforts moving forward.

Opportunities for scaling up in the longer term

A number of developing countries are already proposing to scale up and enhance direct access as a mechanism for climate finance. For example, in 2011 the Least Developed Countries (LDCs) group within the GCF Transitional Committee made a proposal for building "enhanced access", as described above, into the GCF. This would represent an additional shift of many oversight functions to the national level, in practice meaning that funding decisions—and the responsibilities and liabilities associated with those decisions—rest with national entities. Given a country spending ceiling, a national entity or coordination body would then have full autonomy to make all the strategic decisions regarding the allocation of funding.

This kind of enhanced access arrangement has not been tested to date, and so it is not possible to make a full analysis of what may be required. However, a number of important issues raised for direct access equally apply. In particular, enhanced access, as a further transfer of fiscal and legal responsibility to the national level, would require a parallel scale up in capacity transfer. International practices on climate finance tend to include an open and transparent decision-making process that includes all relevant stakeholders in decisions to approve or reject proposals. These capacity demands may limit this modality to larger developing countries in the first instance.

Moreover, a clear division of responsibility and liability would be needed between the global funding institution and national entities making funding decisions. Who would be responsible in the case of misuse of funds? And who will be responsible for monitoring this? There is also a consideration needed as to how global coherence in programming is ensured through enhanced access. When funding decisions are made at the national level there is a risk that, while national coherence may increase, global coherence—especially ensuring a balance between adaptation and mitigation as mandated in Cancun—is maintained. This could require some degree of oversight from the global level.

9. Conclusions

This paper has explored the evolving concept of direct access and the lessons learned from experiences to date in both climate and other development finance. Politically, direct access to international public climate finance represents a fundamental shift in the way the international community delivers climate change finance, and responds to a clear demand from developing countries to take ownership of these resources.

The lessons drawn out in the paper suggest that a focus on direct access as an end in itself – i.e. as a financial tool – is misguided and fails to respond to the wider political context driving the discussion. Instead, direct access should be understood as an approach that transfers the ability to access and manage climate finance to the national level and with it strengthen national capacities and ownership of those resources—and related development outcomes. Operationally, direct access to international public climate finance is still in its infancy. However, important lessons on coordination, division of responsibility between actors, and the critical issue of fiduciary integrity and accountability are all already evident. In particular, evidence suggests that approaches that focus only on testing entities against the strictest fiduciary standards does not lead to a successful direct access modality and, contrary to intentions, can jeopardise the overall delivery of the fund. Instead, taking a more institution-focussed approach that embeds fiduciary practices within national entities and then reviews this progress over time can safeguard financial principles and facilitate direct access over time. This is part of the financial-capacity transfer.

The future of direct access must be one that is based on this dual 'financial-capacity' transfer to developing countries. It needs to build and strengthen national systems through shifting coordination, programming decisions, implementation, and, in some cases, even oversight to the national level in order to promote more effective climate and development outcomes.

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