

Enhanced Direct Access

A Brief History (2009-15)

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FOREWORD

Over seven years ago, at the first session of the Ad-hoc Working Group on Long-term Cooperative Action (AWG-LCA) session in Bangkok, we had the opportunity to discuss our ideas on the reform of the Financial Mechanism of the UN Framework Convention on Climate Change (UNFCCC). We decided that our views were sufficiently aligned to warrant a collaborative effort, and a year later, this collaboration had resulted in three publications that launched the ecbi's work on climate finance – a mainstay of its activities ever since.

Our focus was mainly on architecture and governance (see [1] in the Literature List, appended to this document), which we felt needed to be reformed to reflect two key elements:

- **consolidation** of international public sector funding for developing countries, and
- **decentralized access** through devolution of funding decisions to recipient countries.

These two elements are at the heart of the idea of what has become known as 'Enhanced Direct Access' or EDA. At the time, we had no idea how these two ideas would be received, let alone that they would be operationalized under the Green Climate Fund six years later. It thus gives us particular pleasure to write the Foreword to this timely report on behalf of the ecbi Executive Committee.

The year 2015 is destined to be a historic year in the annals of the international climate change regime, with COP 21 in Paris in December expected to adopt a new multilateral climate change Agreement to replace the Kyoto Protocol in 2020. Finance will again be a key component of any successful outcome at Paris, and we feel this report, showcasing how far the Financial Mechanism has evolved, and indeed how far it has progressed (in particular since the last, somewhat ill-fated, Copenhagen climate summit), will be of great value.

This history begins where our own Brief History ended, and is a very welcome addition to the historiography of the UNFCCC Financial Mechanism.

Benito Müller and **Luis Gomez-Echeverri**



TABLE OF CONTENTS

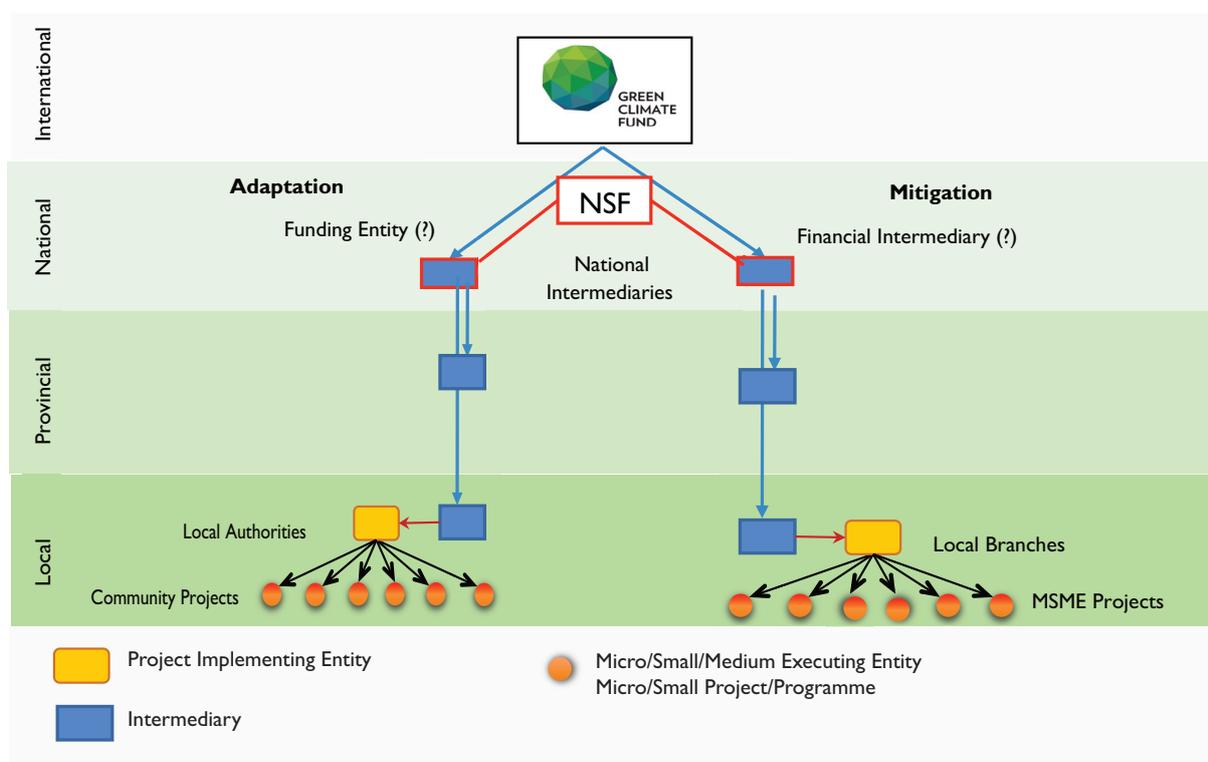
Foreword	iii
I. Precursors to the EDA	3
The Marshall Plan in Germany (1948-52)	3
Autonomous Development Funds (1995-97)	6
Kecamatan Development Program (1998-2007)	7
Amazon Fund (2008-)	8
II. Developing the EDA Concept (2009-2010)	9
Reformed Financial Mechanism	9
Bali Action Plan	10
III. Transitional Committee (2011)	10
IV. Green Climate Fund (2012-15)	11
2012: Taking Stock	11
2013: Delhi Vision Consultation and the Launch of the Considerations	12
2014: The Bali Discussion and the Barbados Decision	13
2015: EDA Pilot Phase and Oxford Launch Celebrations	15

INTRODUCTION

In July 2015, the Green Climate Fund (GCF) Board adopted the Terms of Reference (TORs) to launch a five-year **Enhanced Direct Access (EDA) Pilot Phase**. The objective of the pilot phase is to operationalize EDA modalities *including devolved decision-making and stronger local multi-stakeholder engagement*. The TORs stipulate that *decision-making on the specific projects and programmes to be funded will be made at the national or subnational level ... This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or subnational level. At the same time, mechanisms will be set up to increase national oversight and multi-stakeholder engagement at the country level.*¹

Figure 1 illustrates a national EDA pilot with two National Intermediaries (GCF-accredited entities), one for the provision of grants (Funding Entity), the other for the provision of loans (Financial Intermediary). The national oversight and steering function is represented by a National Steering Committee (NSC).

Figure 1: Institutional architecture of national GCF EDA pilot programmes



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

This history begins with a look at some 'precursors' of EDA. The concept of using devolved national and sub-national decision-making bodies for internationally funded activities is not new – it has existed for at least half a century. The selection of examples in the first section describes four such precursors, chosen either for their prominence or for their

specific characteristics: the post-war Marshall Plan for European reconstruction; the African Autonomous Development Funds; the Indonesian Kecamatan (sub-district) Development Programme; and the Brazilian Amazon Fund.

The subsequent three sections describe three eras that can be distinguished in the evolution of the idea of EDA (see **Figure 2**) in the international climate finance regime: the development of the concept, which lasted until the Cancun Climate Change Conference at the end of 2010; the Transitional Committee drafting the GCF Governing Instrument; and the current era of the GCF Board.

Figure 2: The three eras of EDA

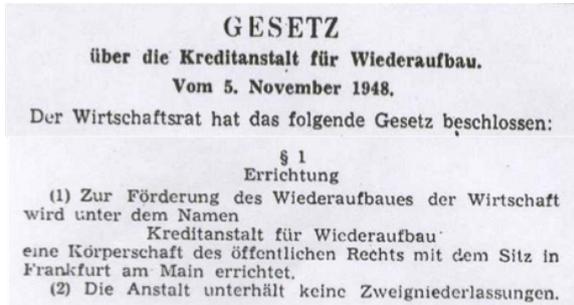


I. PRECURSORS TO THE EDA

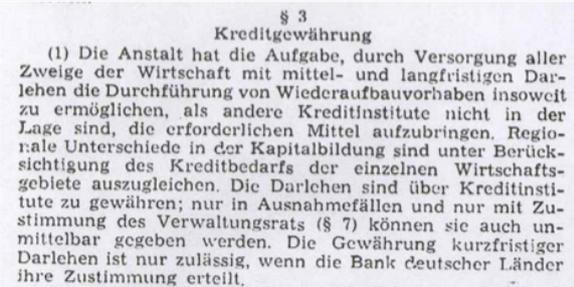
The Marshall Plan in Germany (1948-52)

Genesis

In June 1947, the US Secretary of State George Marshall announced a European Recovery Programme (ERP). Under the ERP, which became popularly known as the Marshall Plan,



the US provided one per cent of its GDP over four years to support the recovery of post-war Europe. This amounted to US \$13.75 billion (roughly €122 billion in current terms²), which was distributed across 18 countries with Germany receiving US \$1.42 billion (€14 billion).



The Plan used two related but distinct mechanisms. First, raw materials, food, machines and other goods were purchased in the US and allocated to ERP recipient countries, where they were sold in the local currency, and second the proceeds were collected in so-called counterpart funds at the central banks for domestic investment purposes.

The Plan was administered by the Washington-based [Economic Cooperation Administration](#) (ECA), created by the Economic Cooperation Act of 1948 as an agency of the US Government, under the guidance of the [Organization for European Economic Cooperation](#) (OEEC).³ It followed traditional centralised decision-making practices: the ECA was a huge

organisation with more than 3,700 staff; a head office in Washington; and a European head office in Paris, all busy “*elaborating detailed guidelines and rules and with ensuring their scrupulous observation,*” according to Heinrich Harries, author of a history of the implementation of the Marshall Plan in Germany.⁴

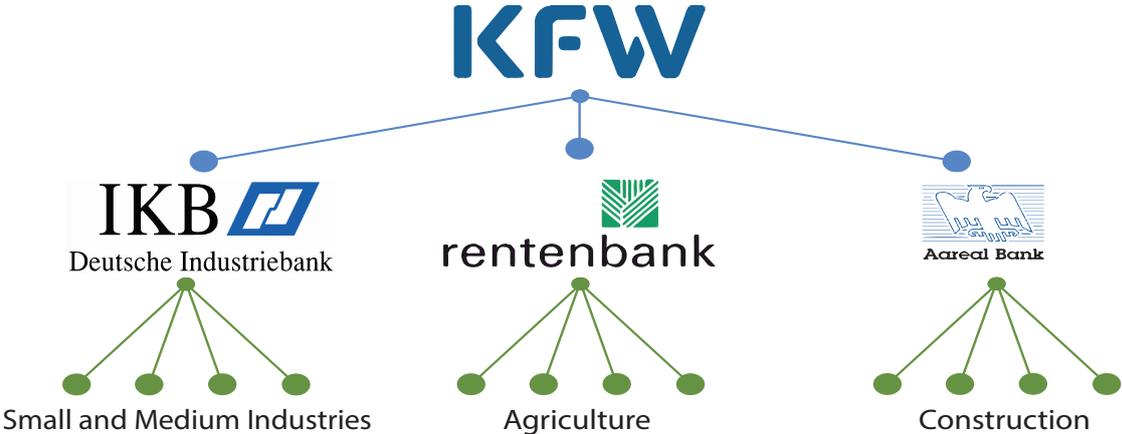
According to Harries, more than 300 ECA officials in Frankfurt and later in Bonn watched over the Germans, who had to submit medium-term overall plans, investment plans and substantiations for each individual project that was to be financed for examination and approval in Frankfurt, Paris and Washington.

At the heart of the Marshall Plan implementation in Germany was the establishment of the *Kreditanstalt für Wiederaufbau* (KfW) as a compromise between “*the British wish to establish a central reconstruction agency*” and the American push for “*the establishment of a decentralised banking system with several regional central banks*”.⁵ KfW was created in November 1948, when the *Wirtschaftsrat* (Economic Council) adopted the KfW Law.⁶ Following the entry into force of the Constitution of the Federal Republic of Germany in 1949, KfW became a corporation under public law directly answerable to the federal government.⁷

The aim, from the beginning, was not to set up a conventional bank but rather a “capital distribution agency” that would pass on the counterpart funds to three central institutions: the [Industriekreditbank](#) (IKB) for industry; the [Landwirtschaftliche Rentenbank](#) for agriculture; and the [Bau- and Bodenbank](#) for construction of housing (see **Figure 3**).

“From the outset we wish to avoid the scenario of a large institution entrenching itself with a huge bureaucracy and encroaching on the territory of the established banks,” said Alfred Hartmann, Finance Director of the *Wirtschaftsrat*, in August 1948. “The KfW is to be a small and unbureaucratic body with a small management board, a capital distribution agency that passes on capital from domestic sources, from international sources or from counterpart funds as quickly as possible.”

Figure 3: The original conception for KfW



The principle of subsidiarity demanded by the Americans was therefore supplemented by the principle of bank transmission – routing the loans through the banking industry.

Operationalising the Bank Transmission Principle

The method of transmitting funds via banks was practiced in the housing, agriculture and manufacturing sectors. According to Harries, lengthy discussions were held before agreement was reached on the details of this procedure, with banks asking many critical questions:

- Why did the KfW want to examine individual loans and have the claim and collateral assigned to itself if it concurrently demanded full liability (“primary liability”) from the bank?
- Surely it would make things much easier for everyone concerned if the KfW were to give a blanket credit to the transmitting bank specifying a very vague purpose and without bothering about the individual loans.
- Conversely, if the KfW insisted on concerning itself so intensely with each individual loan, why should it not assume the liability, too?

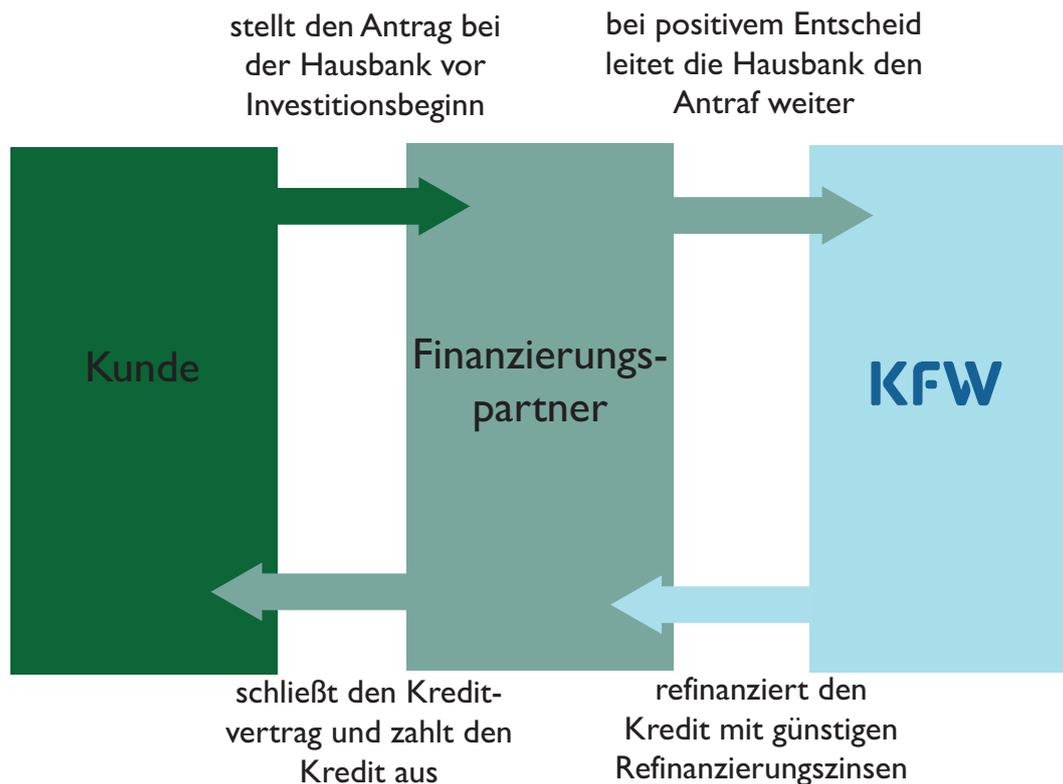
While KfW did grant blanket loans against mortgage bonds in housing and agriculture sectors, it was reluctant to do so in the manufacturing sector, however, much to the chagrin of the IKB, which was keen to secure maximum market shares in favour of its small and medium-sized clients.

Progressive simplification: The Status Quo

With the growing consolidation of the German banking industry, KfW was able to progressively simplify its transmission procedure in subsequent years (see **Figure 4**). KfW has no branch offices of its own, but partners with savings banks, cooperative banks and commercial banks. These banks conduct the appraisal of the borrower, evaluate their plans and decide whether to finance the project and to apply for a loan from KfW. Once the loan has been approved by KfW, the banks on-lend to the borrower.⁸ The bank and the borrower usually know each other already, making it easier for the bank to judge plans more accurately, and a relationship of mutual trust usually exists, that facilitates the loan decision. In some promotional products, especially in the start-up-financing KfW facilitates the granting of a loan by assuming part of the liability – it assumes up to 80 per cent of the credit risk in its promotional programme ERP Gründerkredit StartGeld.

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

Figure 4: KfW in October 2015



Autonomous Development Funds (1995-97)

In 1995, the Swedish Dag Hammarskjöld Foundation (DHF) and the African Association for Public Administration and Management proposed the idea of African Autonomous Development Funds (ADFs). The model envisaged a public but politically independent institution, catering for both government and civil society, with the ADFs acting as funding, not implementing, entities, aggregating finance from a variety of sources.⁹ According to the report of an expert consultation on the role of these autonomous funds,¹⁰ the ADFs were proposed in response to the following concerns and conclusions:

- The delivery mode and a relationship of trust are critical variable[s] in determining the effectiveness of foreign aid.
- Donors need to give up the idea that the more control they have over the preparation of a given project the more likely it is that the project will yield positive results. What is needed is a modification of this process so that donor coordination takes place in response to the demands of recipient institutions.
- Development funding must be available not only at the central level of government but also at lower levels. The central control of decision-making, information flow and resource allocation can be broken if local institutions, including local government, are able to enhance their financial autonomy vis-à-vis central government.

The overall aim of the ADFs, according to the report, was to *encourage greater innovativeness and effectiveness in the use of development resources*, by complementing existing transfer

mechanisms (such as direct resource transfer to governments or non-governmental organizations).

Göran Hydén, who at the time was Chairman of the Board of Trustees of the DHF and instrumental in developing the idea of ADFs, explains in Hydén (1999) that the prime motivation behind the ADF project was “the idea of reforming foreign aid so that it becomes more accountable to constituencies in the recipient country”. The ADF model, he continues, “is meant to provide a demand-driven use of foreign aid that springs from initiatives that are genuinely conceived and owned by African organizations or communities. It caters for public, private and voluntary sector initiatives on a competitive basis, which gives equal chances of financing to government (central as well as local), voluntary organizations, and possibly – depending on the mandate of the fund – also private sector enterprises”.

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

Given that the ADF was an operative instrument rather than a funding mechanisms, the extent to which grassroots communities and groups benefit would depend on how intermediary organizations – governmental or non-governmental – are capable of incorporating these groups and communities into their activities.

Unfortunately, the ADF concept ultimately failed to generate the necessary support and interest, and the last major workshop on the topic was held in Tanzania in February 1997. However, the concept of devolving decision-making to the local level which lies at the heart of EDA was independently picked up with considerable success (with respect to longevity and scale of operations) the following year in Indonesia.

Kecamatan Development Program (1998-2007)

The Kecamatan (‘sub-district’) Development Programme (KDP) was launched in Indonesia in 1998 to address rural poverty and improve local governance.¹¹ It sought to empower village communities by making block grants directly to sub-districts and by providing intensive social and technical assistance to facilitate the building of village-level capacity and the promotion of participation, transparency, and accountability in community-driven activities.

Of particular relevance for climate finance was the third phase in 2003, in which the focus shifted from poverty reduction to governance. The aim of this third phase was to build local government capacity to support community-driven development, and to support the development of permanent inter-village bodies to implement multi-village projects, mediate disputes, and give villages a stronger voice vis-à-vis higher levels of government.¹²

The programme led to the development of project-related skills among communities through a process of ‘learning by doing’. This involved training in democratic decision-making and intensive awareness-building, using a participatory approach. Moreover, the devolved model

employed by the KDP had the knock-on effect of generating greater trust and fostering civic energy and ownership, allowing villages to negotiate amongst themselves and propose investments to the Kecamatan Council for approval.

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

The KDP approach also demonstrated that it makes sense to use “existing national mechanisms and institutional arrangements where possible, especially where they have proven experience in reaching vulnerable sections of society that will need climate finance the most, and in fostering local decision-making”.¹³ Indeed, this approach may hold the key to a problem that is becoming more and more apparent in the context of climate change adaptation: that climate impacts can vary greatly even over small geographical areas, and will need locally-relevant solutions that take on board local community knowledge and experiences. Planning and decision-making must therefore be localized rather than centralized.

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

Amazon Fund (2008-)

The Amazon Fund, managed by the Brazilian Development Bank – the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) – was established in 1998 with US\$1 billion provided by Norway as part of the Norwegian International Forest Climate Initiative (NICFI), and with technical assistance from Germany to combat deforestation and promote the sustainable use of natural resources. The Fund is most noted for its results-based finance for REDD+ and for achieving high standards of transparency and accountability.¹⁴

As explained in some detail in Müller, Fankhauser, and Forstater (2013),¹⁵ the NICFI funds are disbursed ex-post, against national results, at the rate of US\$5 per tonne of carbon dioxide, in respect of avoided emissions from deforestation below an agreed reference level (this takes into account historic trends, future pressures, and nationally appropriate levels of self-financing).

These NICFI payments for achieved results are then used by the Amazon Fund to finance future reductions. The funds are allocated in accordance with Brazil's Plan of Action for the Prevention and Control of Deforestation in the Amazon (PPCDAM) as well as its National

Plan for Climate Change (PNMC). It provides non-reimbursable loans, which are cancelled at the end of the project period once the BNDES verifies that the funds have been spent in line with agreed terms. As explained by Forstater *et al.* (2013) the Fund's major innovation *was to establish a payment-for-performance fundraising model [in which] international donors provided financial support to deliver the objectives of the fund equivalent to the emission reductions achieved.* These are estimated on the basis of hectares of avoided deforestation below a set baseline, average carbon stocks, and a fixed carbon price.

Crucially, funding decisions are made in country, between Brazilian states and actors, with guidelines and criteria set by the Guidance Committee (COFA). Civil society is also active on the Guidance Committee, which itself is composed of federal and state agencies representing multiple sectors and stakeholder groups. Part of its success lies in its 'start-fast and evolve' model, which ensures that new institutions are able to learn and adapt. A clear lesson from the GCF from the Amazon Fund *"is that on-going learning cycles of review, reflection and design evolution should also be built into the process of institutional development of emergent national direct access institutions"*.¹⁶

The international contributor is not involved in making any activity approvals whatsoever – they are all taken in country. NICFI is only interested in the aggregate result of these activities in terms of tonnes of carbon dioxide reduced. This is why the Amazon Fund *is often held up as an example of how a nationally owned and managed, inclusive climate change fund can be established.*¹⁷

II. DEVELOPING THE EDA CONCEPT (2009-2010)

Reformed Financial Mechanism

The previous section illustrates that the key elements of EDA – the ideas of a national consolidation of international public sector funding streams, and the devolution of funding decisions to the national and sub-national levels – have been put into practice outside the confines of climate finance, and long before there was any talk of climate change. While the "direct access" terminology clearly reflects the eponymous access modality of the Adaptation Fund,¹⁸ the "enhancement" in terms of "National Funding Entities"¹⁹ can be traced back to Müller and Gomez-Echeverri's [The Reformed Financial Mechanism of the UNFCCC: Architecture and Governance](#) of April 2009, which introduced climate change funds as *national climate change decision and funding hubs for in-country direct access to funding.*

Considerable work has been carried out at Oxford Climate Policy (OCP) – within and outside the ecbi – on developing these ideas (as witnessed in the appended ecbi/OCP EDA Literature List), but it would be wrong to give the impression that no one else had been working on similar ideas at the time. Indeed, three proposals consistent with the EDA idea were presented at the 2009 ecbi Bonn Seminar: the UK Compact Model; the Swiss proposal for National Climate Change Funds; and the Tropical Rainforest Facility proposed by the Prince of Wales' Rainforest Programme.²⁰ There was also the "Indian Proposal" based *inter alia* on input from ecbi meetings – in particular, a meeting on 9 August 2009 on *Key Issues on Governance of Climate Change Finance*,²¹ which had a direct effect on the UNFCCC negotiations, to which we shall now turn.

Bali Action Plan

The Bali Action Plan, adopted at the thirteenth Conference of Parties (COP13) in Bali, included climate finance as one of four pillars for a new negotiating process under the UNFCCC, for completion by COP15 in Copenhagen two years later. It launched the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA), which held seven sessions between Bali and Copenhagen, developing ever-larger draft negotiation texts.

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

On 22 June 2009, these same words were published as part of a [Revised Negotiation Text](#) under the section on Institutional Arrangements/Structure, but were ultimately left out of the [Report](#) of the AWG-LCA to the COP in Copenhagen. The section on Institutional Arrangements in the finance chapter had lost all references to institutional arrangements at the national level. Instead, it focused exclusively on the establishment of a Fund/Executive Board, or a High-level Forum.

The Cancun Agreements, adopted at COP 16 in Cancun, in 2010, were a significant step forward for climate finance – it was agreed to create the GCF; a Standing Committee on Finance; and a Transitional Committee (TC) for the design of the GCF. However, the finance section still made no reference to national institutional arrangements, let alone anything like EDA in particular. The battle for EDA moved away from the arena of UNFCCC negotiations to the TC, and subsequently to the GCF Board.

III. TRANSITIONAL COMMITTEE (2011)



In early 2011, the Chair of the LDC Group requested the ecbi to provide support for the Group’s representatives on the TC. Benito Müller, ecbi Director, was appointed adviser to Carol Mwape (*see picture, left*), the TC member from Zambia, also representing Least Developed Countries (LDCs). In this function, he organized three meetings between the Finance Circle and TC members, in conjunction with the first three TC meetings, for an informal exchange of views on a number of issues.

The first of these discussion meetings took place on 28 April 2011, in Mexico City. Müller gave a short [introductory speech](#), focusing on how EDA could be used to achieve two otherwise conflicting sets of expectations – that the GCF is to start disbursing as soon as possible, and that it is to work “at scale”.²²

The second meeting took place on 13 July 2011 in Tokyo. Müller launched the discussions with short introductory remarks on [Dissecting the Green Climate Fund](#),²³ introducing the idea that, apart from what became known as the ‘Private Sector Facility’, the GCF should also have a ‘Multilateral Funding Division’ and a ‘Direct Funding Division’ (for enhanced access).

The third ecbi discussion meeting, which took place on 10 September 2011 in Geneva, had a slightly different format, with three introductory presentations on EDA. Katja Roll from the Global Fund to Fight AIDS, Tuberculosis and Malaria gave an introduction to the Country Coordination Mechanism of the Global Fund. This was followed by an introduction to the National Climate Finance Institutions Support Programme, presented by Clifford Polycarp from the World Resources Institute, Washington D.C. Müller concluded with a proposal for definitions of direct access based on those adopted by the Adaptation Fund Board (based on a submission he made to the TC on [‘Enhanced Direct Access’](#)).

The final meeting of the TC itself took place on 16–18 October 2011 in Cape Town. On the penultimate day, during informal consultations, Carol Mwape provided the TC Chair with text that ultimately became part of the direct access paragraph of the GCF Governing Instrument:

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

IV. GREEN CLIMATE FUND (2012-15)

As mentioned in the *Technical paper on the second review of the Adaptation Fund*,²⁴ the Adaptation Fund pioneered not only the implementation of the direct access modality, but it has also pioneered enhanced direct access through the approval of the proposal of the [South African National Biodiversity Institute](#), a national implementing entity in South Africa which includes a [small grants facility](#) for enabling local level responses to climate change.²⁵ And yet, the main locus of the debate on EDA has been and still is the GCF Board. This section traces how EDA was developed within the GCF between 2012 and 2015, including consultations in Delhi, Bali, Barbados and Oxford which proved instrumental in addressing accreditation and ultimately leading to the approval the EDA Pilot Programme.

2012: Taking Stock

Although the deliberations on the GCF started in August 2012, the consideration of the additional modalities that further enhance direct access referred to in paragraph 47 of the GI did not feature on the agenda until June 2013. Yet the debate on the EDA idea was not limited to the GCF Board room, which is why this seems to be a good point in the narrative to take stock of some of the ‘outside’ discussions that had taken place up to that point in time.

Once EDA was formally included in the GCF GI, the discussion turned to how to support this access modality to safeguard the ambition and legitimacy of the GCF.²⁶ For instance, enhanced devolution requires a “parallel scale up in capacity transfer”²⁷ to build fiduciary

systems, transparent multi-stakeholder allocation systems, and appropriate legal and reporting arrangements.²⁸ Moreover, the division of responsibility and liability between the global funding institution and national entities required clear boundaries.

EDA quickly proved to be the preferred access modality for many countries; however, concerns were immediately raised about the challenge ahead for some to meet the criteria for accreditation.²⁹ “While this modality has the potential to greatly increase country ownership over fund allocation and coherence in accessing both multilateral and bilateral resources [...] access through this track will likely require more substantial financial management capacities”.³⁰ Organizations such as the UN Environment Programme, UN Development Programme and the African Development Bank (AfDB) turned their attention to offering guidance for establishing transparent and effective NIEs. AfDB and others also proposed that entities already accredited under the Adaptation Fund could be allowed automatic accreditation under the GCF (subject to a potential maximum cap in terms of project size) in order to minimise the transaction costs associated with accreditation process.³¹

2013: Delhi Vision Consultation and the Launch of the Considerations



In February 2013, Dipak Dasgupta (*see picture, left*), GCF Board member for India, convened a consultation of a number of Board members and their advisers under the auspices of the Indian Finance Ministry, to discuss their Vision for the GCF. This process led to the Government of India’s [Delhi Vision Statement](#).

A number of Notes were prepared to feed into this consultation process. Two of them were of particular relevance in the present context: the draft Vision Statement prepared by Prodipto Ghosh, Chair of the Task Force on Climate Change of the Federation of Indian Chambers of Commerce and Industry (FICCI); and a background paper on access modalities presented by Müller.

In his presentation, Müller noted that countries are in the process of setting up national climate funding instruments – or National Funding Entities (NFEs) – as their preferred conduit for climate change finance, both for domestic and international support. It was therefore difficult to see how the GCF could fulfil its mandate to be country-driven if it did not adopt EDA through such NFEs as one of its access modalities. He also argued that the GCF could only be scaled up to an operational level, fit for its purpose, through the large-scale use of EDA. He concluded by proposing that the GCF should launch an **EDA pilot programme** to engage existing national instruments, build their capacities, and create the necessary in-country enabling conditions for large scale EDA programmes by the GCF.

Following the presentation of these Notes, V. Saibaba, chairman of the FICCI Task Force on Solar Energy, presented ‘Industry Recommendations on Green Climate Fund’ (see **Box 1**), which were fully consistent with the idea of EDA.

BOX I: Indian industry recommendations for GCF

- The National Funding Entity (NFE) should be flexible and non-bureaucratic
- Transfer of resources from the GCF to the NFE, and from the NFE to the private sector, should be simple and transparent
- NFEs should decide what and how to fund
- Utilize existing best possible/proven delivery mechanisms
- Programme/project approval at the country level

GCFB 3. At its third meeting, in Berlin (March 2013), the Board noted that there was a convergence among the views of its members *to commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities* ([Decision B01-13/06](#)).

GCFB 4. At the fourth GCFB meeting, in June 2013, Dasgupta was instrumental in getting paragraph 47 operationalized in the Board decision to consider additional modalities to enhance direct access at its first meeting in 2014 ([Decision B.04/06](#)).



GCFB 5. At the fifth GCFB meeting in Paris, the Board set up an Accreditation Team with the request ([Decision B.05/08](#)) that it should oversee the development by the Secretariat of *additional modalities that further enhance direct access, including through funding entities ... for consideration by the Board at its first meeting in 2014.* (The Board member from Sweden, Jan Cedergren (see picture, far left), was selected to serve as Chair of this team, while

David Kaluba from Zambia (see picture, above right), representing LDCs, was selected as Vice Chair.

2014: The Bali Discussion and the Barbados Decision

GCFB 6. On 17 February 2014, the Ministry of Finance of the Republic of Indonesia, host to the sixth meeting of the GCFB, convened a Luncheon Discussion on [Country Ownership and Enhancing Direct Access](#) in Nusa Dua, Bali.

The discussion was designed to provide a space in which both the GCFB and observer organizations could examine key issues that needed to be addressed in operationalizing the GCF, particularly with regard to realizing country ownership by enhancing direct access in different ways, based on country circumstances. It featured presentations of ideas from Board members/alternates and experts, as well as lessons learned from national and international funding institutions.

An [introductory presentation](#) by Mwape, former LDC TC Member, was followed by presentations on the [Brazilian Amazon Fund](#); the [Indonesia Climate Change Trust Fund](#); the [Bangladesh Climate Change Resilience Fund](#); and the [EU Global Climate Change Alliance](#).

The purpose of this event was to provide some further input to discussions at the Bali meeting, where the topic of EDA was, for the first time, explicitly on the Agenda as item 15.

However, due to time constraints, and also because it was felt that the relevant Background Paper on [Additional Modalities that Further Enhance Direct Access, including through Funding Entities](#) (Version 1, GCF/B.06/15) needed further work, giving more focus to the topic of EDA,³² no decision was taken by the Board [[GCF/B.06/18](#)].

In March 2014, the ecbi published two items with the aim of supporting the revision of this Background Paper by the Secretariat: an ecbi Policy Brief on [Devolved Access Modalities: Lessons for the Green Climate Fund from Existing Practice](#); and [What is EDA? A Rough Guide to Enhanced Direct Access](#).

The Policy Brief on devolved access modalities explains the relationship between EDA and ‘programmatically approaches’, and addresses certain concerns raised about this decentralized/devolved access model, using seven case studies to illustrate current practices and provide ideas and insights on how the GCF might design its own approach.

The Rough Guide, meanwhile, provides the key conceptual tools needed to understand EDA and exemplifies the main access models graphically with a number of figures; these are intended to illustrate the key differences between these models.

GCFB 7. The seventh meeting of the GCFB in Songdo, South Korea, from 18-21 May 2014, was focused exclusively on creating the preconditions for the initial resource mobilization for the Fund.

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

GCFB 8. On 13 October 2014, the eve of the Barbados meeting, the ecbi organized a GCFB Caucus seminar to discuss the findings of this ecbi Policy Brief. The event was attended by 19 Board members, and was generally seen to have been very useful in helping to clarify some issues and misunderstandings, and thus contributing to the smooth passage of the EDA decision ([GCF/B.08/45](#)) by the Board later in the week. The decision:

- (a) Requests the Secretariat, under the guidance of the Accreditation Committee and in consultation with relevant stakeholders, to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access, ..., for approval by the Board at its ninth meeting; these terms of reference will launch the pilot phase; and*
- (b) Clarifies that the terms of reference will specify, inter alia: (i) The objective of the pilot phase; (ii) The type of entities to be involved; (iii) The specialized fiduciary standards required; (iv) The type of activities to be undertaken; (v) The timeframe of the pilot phase; and (vi) The financial volume of the pilot phase.*

The additional specification of the elements that the terms of reference should define reflects conversations with board members attending the ecbi GCFB Caucus Seminar.

The three champions of EDA, Jan Cedergren, Dipak Dasgupta, and David Kaluba were again instrumental in bringing about this land-mark decision.

2015: EDA PILOT PHASE AND OXFORD LAUNCH CELEBRATIONS

In between the eighth and the ninth GCFB meetings, the GCF Secretariat sought input from stakeholders to revise Version 2 of the Background Paper. The ecbi Director put forward that:

- There could be a call to National Designated Authorities (NDAs) for Expressions of Interest (regarding participation in the EDA Pilot Phase), involving the nomination of a gateway intermediary (which is what has been referred to as a 'National Funding Entity' or NFE) and a proposed National Pilot Programme (NPP), to be managed by the nominated NFE.
- The NPP should be governed/strategically guided by a national governing body/committee in order to create genuine country ownership and to facilitate mainstreaming at the national level.
- The NPPs should target (eligible) project activities put forward by local stakeholders (medium, small and micro-enterprises, local communities etc.).
- Following paragraph 43 of the GCF's Governing Instrument, the TORs for the EDA Pilot Programme should encourage the use of local intermediaries (local bank branches, local authorities).

GCFB 9. These suggestions were largely reflected in Version 3 of the [Background Paper](#) (GCF/B.09/05) and presented at the initial session on the EDA agenda item during the ninth meeting of the Board (24–26 March 2015 at the GCF headquarters). However, it was once more not taken up, due to time constraints (see **Box 2**).

GCFB 10. The tenth GCFB meeting in Songdo operationalized EDA on its final day (9 July 2015), approving the TORs and launching a five-year **pilot phase on enhanced direct access**.³³ This was the crowning moment of an arduous three-year process to operationalize the paragraph on direct access in the GCF's Governing Instrument, which mandated the Board to consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes (see Section 3).

According to the approved [Terms of Reference](#), the five-year EDA Pilot *will initially aim to provide up to US\$200 million for at least ten pilots, including at least four pilots to be implemented in Small Island Developing States, the least developed countries, and African States.*

The EDA Pilot will include devolved decision-making to regional, national, and subnational entities ... and stronger local multi-stakeholder engagement.

The decision-making on the specific projects and programmes to be funded will be made at the national or subnational level, and such direct access is a means to increase the level of country ownership³⁴ over those projects and programmes. This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or subnational level.

BOX 2: Excerpt from the Earth Negotiations Bulletin on the 9th Meeting of GCF Board

'Board members expressed strong support for this initiative, with many calling for dedicating more than US\$100 million and longer than two years to the pilot, and some advocating increasing the number of pilot countries. Others suggested it was too early to determine the correct scale of funding before seeing the country proposals. Concerns over the accreditation process for entities from the pilot countries were expressed, including its sequencing with the submission of proposals from countries and the lack of an explicit role for the Accreditation Committee.

While agreeing that EDA should be a signature modality of the Fund, Board members asked for further clarification on: the role of the NDA; precise differences between the EDA and the international access modality; the specific role of the Fund's Accreditation Committee and Panel in the EDA modality; strengthening learning, transparency, information sharing, multi-stakeholder and gender elements in EDA; and whether funds would be provided as grants or loans.

In response to questions, the Secretariat proposed, *inter alia*: that NDAs should drive the preparation of proposals; a national oversight body could help ensure increased multi-stakeholder participation under EDA; the EDA modality should rely on existing frameworks of the Fund to the extent possible, including for oversight, accountability, monitoring and assessment; and the Accreditation Committee and Panel should be involved.

Outcome: The matter was not taken up again due to time constraints and will be discussed at a future meeting.'

At the same time, mechanisms will be set up to increase national oversight and multi-stakeholder engagement at the country level.

Countries can nominate an entity for the implementation of the country pilot (National Implementing Entity), such as a public-sector institution (development bank, national fund, etc.) or private-sector entity (commercial bank, investment fund, leasing company, etc.), operating at the regional, national or subnational level.

National Oversight and Steering Function. Country pilots will be overseen and strategically guided at the national level. The oversight and steering function *should include the NDA or focal point, and representatives of relevant stakeholders, such as government, private sector, academia, civil society organizations, and women's organizations.*

Engaging local stakeholders through local intermediation. *In implementing country pilots, the designated NIEs will work:*

i. with various types of local actors ... including public institutions, local bodies, non-governmental organizations, community-based organizations, actors from the informal sector, and private enterprises, particularly small and medium sized enterprises (SMEs). A significant share of small-scale activities should directly support communities or SMEs through, for example, small-scale grants or extended line of credit.

ii. through various types of local actors in the development of potential projects and programmes, particularly local intermediaries and those addressing the needs of vulnerable communities.

These key requirements on country pilots match the conclusions drawn in two OCP/ecbi papers published in the first quarter of 2015, namely:

- [Consolidation and devolution of national climate finance](#)
- [Engaging Micro, Small, and Medium Enterprises in developing countries](#)



One of the reasons why the EDA Pilot decision is (potentially) momentous is that Board members from both developed and developing countries have started to refer to EDA as the GCF 'signature access modality' (see Box 2). It therefore stands to reason that EDA, and more

precisely the ideas reflected in the EDA Pilot, should and will have a significant impact on the strategy debate that was also launched at the tenth meeting.

The eleventh **ecbi Oxford Seminar** was held on 10 & 11 September 2015 at Trinity College and the Examination Schools in Oxford, UK. It was attended by 16 Fellows (senior negotiators from developing countries, including the chairs of the LDC Group, the African Group and the Alliance of Small Island States), who were joined by 10 leading negotiators from Europe.

Participants celebrated the launch of the EDA pilot by the GCF at a dinner on 10 September at Blenheim Palace (see picture, above). A brief introduction to EDA, a new funding modality under the GCF, which focuses on promoting national and sub-national decision-making, was given by ecbi Director Benito Müller. This was followed by a statement by Ambassador Jan Cedergren, GCF Board Member from Sweden, which was read out by Ambassador Bo Kjellén, ecbi Advisory Committee co-chair.

Apologizing for his absence due to an emergency, Cedergren said: 'I would like to leave with you a few words regarding a very important achievement in the GCF Board where the host of this seminar, Benito, and ecbi have played a decisive role'. He noted that successful implementation of the EDA Pilots will promote the overall ambitions of the GCF and show the way on how to provide climate finance in a sustainable and innovative way.

This was followed by an after-dinner speech by Prodipto Ghosh, former Secretary to the Government of India, Ministry of Environment, Forests and Climate Change, who has been instrumental in fostering EDA in India, not only by co-authoring the [Delhi Vision Statement](#) with Dipak Dasgupta, but also by co-facilitating the [New Delhi Consultation on Consolidation and Devolution of Climate Finance in India](#).

OCP/ECBI LITERATURE LIST

Available at www.oxfordclimatepolicy.org

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3. [The Global Environment Facility \(GEF\) and the Reformed Financial Mechanism \(RFM\) of the UNFCCC – Apr 2009](#)
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13. [Copenhagen 2009: Failure or final wake-up call for our leaders? – Feb 2010](#)
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16. [The Reformed Financial Mechanism of the UNFCCC: Part II The Question of Oversight, Post Copenhagen Synthesis Report – Apr 2010](#)
17. [Climate Financing for Developing Countries: A post-Copenhagen synopsis – June 2010](#)
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19. [Reforming the Financial Mechanism: Some thoughts put together by the 2010 ecbi Fellowship – Oct 2010](#)
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27. [The Green Climate Fund: What needs to be done for Durban \(COP 17\) – Feb 2011](#)
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33. [Preferred Enhanced Access: Submission to the GCF on the Business Model Framework](#) – Mar 2013
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Endnotes

1. [GCF Decision B.10/04](#).
2. A [US\\$ inflator of 10.03](#) and a current [US\\$/€ exchange rate of 0.88](#), are used throughout to indicate current values.
3. In 1961, the ECA was superseded by USAID, and the OEEC was superseded by the Organisation for Economic Co-operation and Development (OECD).
4. This section relies heavily on Harries, H. (1998). Financing the future: KfW – the German Bank with a Public Mission, Frankfurt, Fritz Knapp Verlag. We would also like to acknowledge the kind support we received from Lysann Goldbach, Head of the Historical Group Archive, KfW.
5. [Time for regeneration](#)
6. The Wirtschaftsrat des Vereinigten Wirtschaftsgebietes was the first post-war German legislative assembly in what was to become the Federal Republic of Germany, and as such and progenitor of the German Bundestag. The KfW Law was the first post-war case in which the Germans were allowed to enact banking legislation. ... Thus the KfW can lay claim to being the first public bank created by German legislation after the war. [Harries, H. (1998). Financing the future: KfW – the German Bank with a Public Mission, Frankfurt, Fritz Knapp Verlag, p.15].
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15. See, in particular section 3.1.1.
16. Zadek, S., Forstater, M., & Polacow, F. (2010). 'The Amazon Fund: Radical Simplicity and Bold Ambition', Avina Working Paper, November 2010.

17. Forstater, M., Nakhooda, S. & Watson, C. (2013). 'The Effectiveness of Climate Finance: A Review of the Amazon Fund', ODI Working Paper 372, Overseas Development Institute, May 2013.
18. The 'direct access' modality of the Adaptation Fund was established in December 2007, when the CMP3 decided 'that eligible Parties shall be able to submit their project proposals directly to the Adaptation Fund Board and that implementing or executing entities chosen by governments that are able to implement the projects funded under the Adaptation Fund may also approach the Adaptation Fund Board directly.' [Decision 1/CMP.3, paragraph 29].
19. The first appearance of the notion of 'national funding entities' in a UNFCCC document seems to be in the [Revised negotiating text](#) of 22 June 2009, (pp. 158f.) itself reflecting a submission drafted by one of the 2008 ecbi Oxford Fellows who was closely involved in the relevant ecbi work at the time.
20. For more on these examples, see: [2009 Bonn Seminar: On Future Financial Architecture & Governance](#).
21. See the meeting report [7].
22. The speaking notes were subsequently [submitted to the TC](#).
23. Again, the notes were later [submitted to the TC](#).
24. FCCC/TP/2014/7, 23 October 2014; paragraph 44.
25. 'Taking adaptation to the ground: A Small Grants Facility for enabling local level responses to climate change', [Decision B.24/14](#), 17 October 2014.
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32. [Decision B.08/09](#) '(a) Requests the Secretariat, ... , to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access, ... , for approval by the Board at its ninth meeting; **these terms of reference will launch the pilot phase**'; [emphasis added].
33. Müller, B. (2014). Enhancing Direct Access and Country Ownership. [40]. [Footnote TOR, para. 3].