



Visioning Climate Finance Institutions

National Implementing Entities (NIEs) as a basis for strengthened governance structures

Introduction

The Adaptation Fund (AF), operational since 2009, and the Green Climate Fund (GCF), to be operational in the near future, are climate finance mechanisms designed by the United Nations Framework Convention on Climate Change (UNFCCC). Together with other mechanisms, the two funds will provide vulnerable countries with the financial resources they need to implement climate change adaptation and mitigation programmes.

Since 2001, excluding bilateral and the fast-start finance¹ sources, some US\$27 billion has been pledged to existing funds by developed nations for climate change adaptation and mitigation projects in developing countries (Petrie and Eustace, 2011). Climate finance mechanisms require the national institutions of recipient countries to demonstrate accountability and transparency measures, as well as planning, monitoring and evaluation capabilities. However, very few African states thus far have effectively demonstrated the capacity to access the funds that are currently available, without the assistance of multilateral implementing agencies.

Direct access, an innovative concept applied by the AF, provides applicant countries with the opportunity to access climate funds directly from the AF through existing domestic institutions that are accredited as National Implementing Entities (NIEs). Yet the number of NIEs so far approved by the AF remains low, highlighting the need for applicant countries to strengthen their national institutions in order to access global funds. As of September 2011, globally there were six accredited NIEs, one Regional Implementing Entity (RIE) and nine Multilateral Implementing Entities (MIEs).

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Experience has shown that institutional building and strengthening takes time and resources. Therefore existing institutions should be strengthened rather than having to create new ones. Countries hoping to access funds through the Green Climate Fund (GCF) will benefit from using the requirements of the AF to strengthen existing institutions that can evolve to meet the requirements of the GCF and other funding mechanisms.

Strengthened institutions are important in and of themselves, to meet funding requirements, and to provide vulnerable communities with a flow of funds that will enable them to take action and develop resilience in the face of climate change.

Africa: High vulnerabilities and low finance absorptive capacity

Africa is particularly susceptible to the physical effects of climate change and most of its citizens have limited capabilities to deal with the resulting impacts. Additionally, institutions have shown low capacity to absorb existing funds. There is no doubt that Africa will benefit immensely from a global climate finance agreement that aims to

Policy recommendations

1. Select and strengthen existing institutions so that they are able to fulfil the NIE and RIE status requirements laid down by the AF.
2. Prepare the institution to fulfil the requirements of subsequent climate fund mechanisms such as the Green Climate Fund.
3. Ensure that NIEs and RIEs display the capability to:
 - respond to the fiduciary, monitoring, evaluation and oversight requirements of international funding mechanisms
 - respond to the realities of vulnerability in their countries and regions
 - fully engage with the scientific aspects of climate change in their countries and regions.

reduce the physical effects of climate change impacts, strengthen the abilities of vulnerable people to adapt to climate change and increase the capacity of institutions to absorb available funds.

Any future climate finance regime is likely to be met with the challenge of how to effectively support projects and programmes that result in resilient societies. The Adaption Fund, operational since 2009, can be accessed directly through country-driven approaches. While it is doubtful that the AF will provide adequate financial resources to meet the growing challenges related to climate change, its requirements are a basis for institutional strengthening to access future funds.

To facilitate country or regionally driven approaches, the AF emphasises that NIEs, or regional institutions achieving accreditation with the AF Board as Regional Implementing Entities (RIEs), should drive programmes. The alternative to accessing the AF is through Multilateral Implementing Entities (MIEs), currently the dominant approach. Unfortunately the latter does not facilitate direct access often meaning that in country capacity enhancement on adaptation project development and management is non-existent or low. This does not augur well for strengthening national or regional level adaptive capacity (in this case through strengthened, local level institutions) and hence climate resilience. One reason for the multilateral approach being favoured is the low level of NIE approval. Problems experienced in establishing the requisite national level capacity include an inability to demonstrate capability to manage medium to large funds. This in turn is due to the tendency to entirely house climate change response strategies under environmental institutions with little fiduciary responsibilities and experience where development planning and finance ministries are more likely to demonstrate capacity that meets AF criteria. Typically, national or regional level capacity requiring focus lies in project risk management policies, procedures, tools and systems, consistent with international best practice and in developing a clear results and monitoring and evaluation frameworks.

Adaptation Fund (AF)

- Established by the Parties to the Kyoto Protocol of the UNFCCC
- Finances concrete adaptation projects and programmes in developing countries that are Party to the Kyoto Protocol
- Financed by 2% of the Certified Emission Reduction (CERs) of projects under the clean development mechanism (CDM)

The AF Board evaluation of implementing entities is by necessity stringent and it is important to build

on the foundation set by the AF if climate finance absorptive capacity is to improve, partly through reduced dependence on international agencies for design and implementation of local level climate change responses and partly involving national institutions with requisite fiduciary, monitoring and oversight experience. Developing countries and regions will benefit from recognising that NIE or RIE status as a basis for strengthened institutions allowing direct access to future financial flows as well as for improved adaptive capacity. This is particularly important given the ongoing developments with the Green Climate Fund (GCF), which is expected to follow the AF modality and provide resources under a direct access arrangement.

NIE accreditations in sub-Saharan Africa

- Senegal: first NIE to be accredited and have a programme approved by the AFB
- Benin: National Environment Fund accredited in June 2011
- South Africa National Biodiversity Institute (SANBI) accredited in September 2011

NIE status requirements – a basis for crafting strong and resilient institutions

A recent report emphasises the importance of governance if the needs of the most vulnerable countries are to be met (Pearl-Martinez, 2011). In particular, it notes the need to strengthen country-level ownership of climate funds. The direct access avenue of the AF provides a strong basis for country-level ownership. The Adaption Fund Board (AFB) requires organisations that seek NIE status to demonstrate competencies in fiduciary standards. These are:

- financial integrity and management, with NIEs required to demonstrate the ability to accurately and regularly record transactions and balances with regular audits, efficient management and disbursement of funds, and ability to produce forward plans and budgets;
- institutional capacity, in particular transparent procurement procedures, monitoring and evaluation capacity, management competence to oversee project/programme execution; and
- transparency and self-investigative powers to handle financial and other mismanagement (Adaptation Fund Board, 2010).

If met, these fiduciary standards will help ensure that countries, projects and programmes have direct access to funds. The wide-ranging nature of fiduciary standards means that they are not just about institutional capacity. The size of grants that an institution has



Tanzanian villagers on their way to fetch water. Africa is particularly susceptible to the physical effects of climate change and most of its citizens have limited capabilities to deal with the resulting impacts.

handled in the past is important in considering approval of NIE status. While funded projects under the AF are budgeted under US\$10 million, they are probably higher than most developing country NIEs have handled before. Considering that funds from the GCF are likely to be considerably higher than the AF, an NIE status should be considered as a stepping stone towards fostering direct access to future flows of funds and securing country level ownership.

The current state of institutions and securing ownership of funds

The governance of climate finance is a global challenge. Two key issues regarding climate finance are: (i) the need for balanced representation in the composition of institutions and fund mechanisms at global level; and (ii) direct access to funds for national and subnational projects and programmes. The AF meets both these requirements. The AFB has a slight majority of developing country representatives. Of the existing fund mechanisms, the AF is the first to apply direct access to channelling its resources, establishing a direct link to national institutions.

Currently, fewer NIEs have been accredited, compared to MIEs. Consequently, most adaptation projects currently being developed are being submitted by MIEs.

The AFB, however, is discussing a 50% cap on proposals from all MIEs. While current proposals are largely from MIEs, the cap on proposals means there is a window for more involvement of NIEs in the future. Not only will a preferential channelling of funds through NIEs enhance opportunities for direct access to funds, it will also ensure that recipient countries can have some ownership over the process and outcome of applying, planning for and implementing projects and programmes.

Of the project proposals posted on the AF website (12 June 2011), only one² is proposed to be implemented by an NIE.³ Similarly, of the projects approved to date, only one is through an NIE. The rest are through MIEs, particularly the UNDP. These statistics raise questions on the future viability of NIEs considering that the operation fees included in the budgets accrue to MIEs and not NIEs. They lead to the maintenance of the status quo whereby multilateral institutions continue to act on behalf of developing countries. While recognising these multilateral institutions' experience with managing large budgets,⁴ it is clear that a continuation of this arrangement may not lead to the strengthening of country level institutions and fostering country ownership of the funds and processes.

At the same time, the involvement of MIEs re-confirms the concern that national institutions may not necessarily be adequately equipped to meet the fiduciary requirements of the AF or, more importantly, to monitor, implement and evaluate projects and programmes for the benefit of the most vulnerable local communities. As noted elsewhere, the AF needs to fulfil



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expectations by supporting a critical mass of projects without compromising the fiduciary standards set by the AFB (Brown *et al.*, 2010). An apt question to ask is whether “providers of finance are putting developing countries in the driver’s seat” (Pearl-Martinez, 2011). However, for developing countries to be fully in the driver’s seat, they need to demonstrate capabilities to manage large budgets for the benefit of the most vulnerable. This raises the question of whether the fiduciary arrangements at national levels match the responsibilities to be conferred through NIE status.

Matching institutional capacity with responsibilities

The architectural shifts of the AF not only present an opportunity for timely provision of funds, but also mean greater responsibilities for national and sub-national institutions. To fulfil these responsibilities, recipient countries need strengthened institutions. The AF has started to transfer funds directly to recipient country institutions, with six NIEs accredited globally by September 2011. While comments to the failed accreditation applications are not available for public scrutiny, comments on conditional approval of NIEs indicate that the AFB is strongly committed to systems of monitoring, executing and accounting for adaptation funds. Fiduciary competencies, however, are not the only defining requirements for NIE approval.

For direct access to work at a larger scale, climate strategies must be robust and able to demonstrate results through “transparent and effective monitoring

and evaluation systems” (Petrie and Eustace, 2011). Capacity strengthening is therefore crucial if scaled-up conceptualisation and implementation of projects is to be successful. The NIEs should be regarded as laying the ground for more competent institutions that are prepared not only for sub-national projects, but for strategies with national reach and implications as well. Strengthened, robust and resilient institutions at national and sub-national level are therefore key to ensuring country-level ownership of adaptation strategies that serve the most affected.

Balanced fiduciary and environmental competencies in institutions: a case for hybrid institutions

In many African countries, agencies in the environment sector are responsible for climate change issues. At the same time, there is growing recognition that climate change is not just an environmental matter but also has major developmental implications.⁵ This raises the question of which kind of institutions are best located to manage funds for climate action.

This question can be approached first by distinguishing between executing and implementing entities. Implementing Entities (IEs) have oversight roles in the development, approval, monitoring and evaluation of projects, while Executing Entities (EEs) carry out project activities (Brown *et al.*, 2010). NIEs do not necessarily have to be housed in environmental agencies, as long as they have a demonstrated ability to manage funds, provide oversight and put in place project monitoring and evaluating systems. Even environment-related institutions need to demonstrate the ability to provide oversight beyond what might be perceived to be a narrow focus. The South Africa National Biodiversity Institute (SANBI) is a case in point. The AF Board approved its NIE status but requested the AF Secretariat to ensure that project or programme applications that do not have a direct link to biodiversity should have ministerial approval (Adaptation Fund Board, 2011). At the same time, those institutions with the necessary fiduciary competencies are often not at the centre of substantive climate change issues.

When earmarking institutions for NIE status, national governments should therefore seek to balance fiduciary and environmental competencies. This raises questions about whether NIEs should be assessed on the basis of leadership capacity, or whether better coordination is more important. A picture thus emerges of agencies related to development planning and treasury getting more involved in NIE status accreditation.

A case may thus be made for hybrid institutions that are able to satisfy NIE requirements while balancing the roles and responsibilities of IEs and EEs. Hybrid institutions would be able to access the fiduciary competencies of



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treasury and development planning agencies alongside the environmental knowledge in institutions dealing with climate change issues. This suggests that it is not a case of “either/or”, but that a combination of best-placed institutions would be preferable.

Leveraging climate change finance

The High Level Advisory Group on climate finance notes that, while it is feasible to raise \$100 billion annually by 2020, multiple sources will have to be accessed for this (High Level Advisory Group, 2010). In particular, the report notes that funds would have to be sourced from both public and private sources. Developing countries are already funding climate change-related activities from internal sources, even though this has not been sufficiently recognised internationally. A perception indeed exists that they are only seeking funds from international sources. National investments in climate change should thus be clearly spelt out as a basis for leveraging sources from elsewhere. Similarly, institutional strengthening can be used as a basis to demonstrate a commitment to robust institutions. Drawing links between climate change and development can further clarify issues of adaptation and mitigation that are already funded through national budget support.

Conclusion: the need for establishing strong and resilient climate finance institutions

The proliferation of climate change funds over the last 10 years has seen approximately \$27 billion pledged to the existing multilateral funds (excluding bilateral sources). More funds are likely to flow to meet the

A flooded village in the Salima district of Malawi. Vulnerable African communities will benefit immensely from global climate finance agreements that strengthen their abilities to adapt to climate change impacts and recover from extreme climate events.

challenges of climate change. This policy brief has used the case of NIE accreditation to point to the need for strengthened institutions if developing countries are to effectively design, implement and evaluate projects and programmes. Strengthened institutions are necessary to deal with high vulnerabilities and to effectively disburse climate funds. On the basis of the AF’s emphasis on direct access and country-driven conceptualisation, implementation, monitoring and evaluation of programmes, NIEs should be seen as a foundation from which to build and strengthen financial institutions to handle climate funds and provide effective oversight to climate-related projects and programmes.

However, given the still low levels of accreditation of NIEs globally, there is a clear need to invest in preparing institutions to access additional funds such as those anticipated from the GCF in the future. Investing in NIEs beyond the AF serves two purposes. First, institutional strengthening will ensure the evolution of effective institutions rather than having to resort to the formation of entirely new ones when fund mechanisms change. Secondly, because establishing a competent institution requires considerable time and resources, strengthening existing institutions makes good sense. The time for strengthening institutions in anticipation of future climate funds is now.



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SOUTHERN AFRICA

The Regional Climate Change Programme Southern Africa (RCCP)

The RCCP aims to contribute to the achievement of southern Africa's climate change adaptation needs, socioeconomic development and poverty alleviation objectives, including the Millennium Development Goals.

By synthesising the relevant climate change science, developing strategic research and strengthening science-policy-governance-finance dialogue, the RCCP will build an evidence base for appropriate transboundary responses, strengthen the region's voice on international platforms and negotiations, and enhance its ability to equitably access the necessary finance for effective climate change adaptation.

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Notes

- 1 US\$30 billion is pledged under the fast-start finance of the Copenhagen Accord, but this does not constitute a fund managed through the UNFCCC channels even though contributors are required to provide reports to the UNFCCC secretariat.
- 2 National Planning Institute of Jamaica.
- 3 Senegal's CSE.
- 4 Both the World Bank and UNDP submitted NIE accreditation applications on the basis of managing Global Environmental Facility (GEF) projects.
- 5 The Africa Climate Policy Centre recently commissioned a series of papers to explore climate and development linkages in Africa.

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