

Sixteenth meeting of the Standing Committee on Finance Bonn, Germany, 18 – 21 September 2017

Background paper on the draft guidance to the operating entities of the Financial Mechanism

Expected actions by the Standing Committee on Finance

The Standing Committee on Finance will be invited to agree on:

- 1) The draft guidance to the operating entities of the Financial Mechanism to be included in its annual report to COP 23;
- 2) The objective of a draft set of core guidance to the operating entities of the Financial Mechanism, its intended use and a process to update it.

I. Options for consideration by the Standing Committee on Finance

Draft guidance to the operating entities of the Financial Mechanism

1. The co-facilitators of the working group will prepare compiled draft decision texts on the guidance to the operating entities of the Financial Mechanism to facilitate the discussions on this subject matter, which the Standing Committee on Finance (SCF) may wish to use as basis for its deliberations.
2. In its deliberations, the SCF may wish to take into consideration the following:
 - (a) The reports of the Green Climate Fund (GCF)¹ and the Global Environment Facility (GEF) that are currently available;²
 - (b) One submission from a SCF member, as contained in annex I;
 - (c) One submission from a Party, as contained in annex II;³
 - (d) Inputs from the Technology Executive Committee (TEC) and the Adaptation Committee (AC), which will be available during the SCF meeting;⁴
 - (e) The set of criteria that the SCF agreed to at its 15th meeting,⁵ against which the inputs received will be assessed to see whether the inputs are:
 - i. In line with the mandates of the operating entities of the Financial Mechanism;

¹ FCCC/CP/2017/5.

² FCCC/CP/2017/7.

³ Latest submissions from Parties can be found in the UNFCCC Submission Portal:

<http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionfrom=Parties&focalBodies=COP>.

⁴ As the TEC holds its 15th meeting from 12 to 15 September 2017, its inputs to the draft guidance will be available shortly before the SCF 16. As for the AC, its 12th meeting will be held from 18 to 21 September 2017, in parallel with the SCF 16 meeting. Hence, the AC's inputs to the draft guidance will be available during the course of the SCF meeting.

⁵ SCF/2017/15/11, paragraph 51(b).



- ii. Ongoing and are being currently undertaken by the operating entities;
 - iii. Not contradictory to previous guidance given to the operating entities;
 - iv. Not duplicative of previous guidance.
- (f) The latest Compilation and Analysis (C&A) of previous guidance to the operating entities.⁶

Draft set of core guidance to the operating entities of the Financial Mechanism

3. The SCF may wish to consider reporting to the COP progress made in deliberating on the issue of draft core guidance, as follows:
- (a) The objective of draft core guidance is to consolidate previous guidance to the operating entities of the Financial Mechanism that remain ongoing and relevant to the operations of the operating entities and serve as standing guidance for the operating entities;
 - (b) In preparing the annual draft guidance to the operating entities, the SCF will assess its draft guidance against the core guidance, to determine whether additional guidance is needed or whether the core guidance is sufficient
 - (c) The core guidance, once developed by the SCF and endorsed by the COP, will be updated and reviewed by the SCF every four years, with a view to informing the replenishment discussions of the operating entities.

II. Background information

Mandate

4. At COP 20, Parties endorsed the recommendations by the SCF on the provision of guidance to the operating entities,⁷ which included the following proposed actions to be conducted by the SCF:
- (a) Conduct an analysis of previous guidance provided in order to identify a set of core guidance to serve as basis for the provision of future guidance in order to reduce redundancies, incoherence, and inconsistencies within the guidance provided to the operating entities;
 - (b) Increase collaboration between the SCF and the thematic bodies of the Convention in the provision of draft guidance to the operating entities;
 - (c) Consider the issue of complementarity between the operating entities and the funds they administer when the GCF is operationalized.

Draft guidance to the operating entities of the Financial Mechanism

5. In preparing the draft guidance to the operating entities, the SCF invited inputs from the AC and TEC based on the criteria that the SCF agreed upon at its 15th meeting, as referred to in paragraph 2(e) above. As the TEC holds its 15th meeting from 12 to 15 September 2017, its inputs to the draft guidance will be available shortly before the SCF 16. As for the AC, its 12th meeting will be held from 18 to 21 September 2017, in parallel with the SCF 16 meeting. Hence, the AC's inputs to the draft guidance will be available during the course of the SCF meeting. The co-facilitators will prepare a compiled draft decision text for

⁶ Available at: <www.unfccc.int/6814>.

⁷ FCCC/CP/2014/5, paragraph 10.

consideration at SCF 16, based on the inputs received from the SCF members, Parties, as well as the AC and the TEC.

Draft set of core guidance to the operating entities of the Financial Mechanism

6. At its 15th meeting, the SCF agreed on the methodology of consolidating *active* guidance from the C&A.⁸ The methodology is to consolidate all previous guidance given to the operating entities that has the suggested status of *Active* in the C&A, which would represent guidance that are ongoing and relevant for the operations of the operating entities. All past guidance that has been overtaken by newer guidance or duplicates more recent guidance has been screened out as *Inactive*. This methodology follows the precedent of the Convention on Biodiversity, whereby all previous guidance provided to the Financial Mechanism is filtered and consolidated into one document and subsequently adopted by its COP 13, ahead of the GEF replenishment, to ensure consistency and practicality of guidance.

7. The core guidance, once developed by the SCF and endorsed by the COP, could be reviewed and updated every four years, for example, one year ahead of a new replenishment cycle of the operating entities. This approach is conducive to providing strategic guidance to the operating entities and to inform the negotiation process for the new replenishment cycle.

8. Furthermore, the SCF could utilize the core guidance in its work to annually prepare draft guidance to the operating entities.⁹ Specifically, the SCF could cross-check the input received against the core guidance and reports of the operating entities, to assess whether the input is repetitive, contradicts with previous guidance or in line with the mandates of the respective operating entity.

9. During the inter-sessional period, the C&A was refined as following:

- (a) Based the compendium of all decisions taken by the COP on the operating entities, decisions that do not constitute direct guidance have been filtered out into a separate worksheet i.e. any decisions that begin with a non-guidance verb, such as “*Welcomes*”, “*Takes note*”, “*Recognizes*”, “*Reiterates*” or “*Reaffirms*” have been filtered out. After this exercise, Hence, the current C&A contains the COP decisions that begin with, such as “*Decides*” “*Requests*”, “*Invites*”, “*Urges*”, or “*Encourages*”;
- (b) The C&A has been updated with the information provided by the operating entities in their annual reports to the COP, on how they responded to the guidance provided by COP 22.

10. Owing to the complexity of the exercise and additional work needed to accurately assess *Active / Inactive* status of each guidance, the SCF could undertake further work on this matter in 2018 with a view to reporting to COP 24 a draft set of core guidance for its consideration.

⁸ For more information, see SCF/2017/15/10 and SCF/2017/15/11.

⁹ The SCF, at its 15th meeting, agreed to recommend to the COP that guidance to the GEF is provided annually. See SCF/2017/15/11, paragraph 54. COP 22 endorsed recommendation by the SCF that guidance to the GCF is provided also annually. See FCCC/CP/2016/8, paragraph 36.

Initial guidance to the operating entities of the Financial Mechanism by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement

11. During the resumed session of the Ad Hoc Working Group on the Paris Agreement (APA) in May 2017, the APA agreed to continue its consideration of the remaining possible additional matters, which includes, inter alia, initial guidance by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) to the operating entities of the Financial Mechanism under Article 9, paragraph 8, and decision 1/CP.21, paragraphs 58 and 61 to 63, as well as initial guidance by the CMA to the Least Developed Countries Fund and the Special Climate Change Fund in accordance with decision 1/CP.21, paragraph 58.

Standing Committee on Finance

SCF/2017/16/4
18 – 21 September 2017

Annex I

Submission received from a SCF member on draft guidance to the operating entities

Inputs from Mr. Randy Caruso

Annotated suggestions for elements of draft guidance to the Green Climate Fund

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>	<i>Comments by SCF members</i>
Policies	GCF Operations	Report to COP	<i>Welcomes with appreciation</i> the significant scaling up of GCF operations in 2017, noting the \$XXXB committed to specific projects and programs, the issuance of requests for proposals worth up to \$XXXM, and the increase in the Secretariat from XX to XXX people.	The COP should note and indicate appreciation for the efforts of the GCF Board and Secretariat to scale up operations in 2017. (Dollar figures and Secretariat headcount to be updated B.18 GCF Board Meeting.)
	AML/CFT/Prohibited Practices	Decisions B.10/06	<i>Urges</i> the GCF to prioritize developing full policies on prohibited practices, including policies addressing anti-money laundering and countering the financing of terrorism.	These policies are critical to the institutional architecture of the GCF and, if not finalized, expose the institution to significant reputational and financial risk. Therefore, they should be dealt with urgently. The Board originally requested these documents for the 11 th Board meeting.
	Review of Committees	GCF Governing Instrument paragraph 18 (g); GCF Rules of Procedure paragraphs 30–32	<i>Encourages</i> the GCF to initiate a review of the function of committees, panels and groups to increase their effectiveness in meeting institutional needs.	GCF committees, panels, and groups have been operational for several years, with varying degrees of success. They should be reviewed with a goal of improving their function and enhancing their utility.
	Proposal Approval Process	Decision B.17/09	<i>Acknowledges</i> steps the GCF has taken to improve the proposal development and approval process and <i>calls for</i> further policy improvements to enhance proposal quality and ambition.	The GCF's proposal development and approval process has been incrementally improved since the first proposals were approved at B.11. However, few of the process improvements have been

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>	<i>Comments by SCF members</i>
				formalized or consistently applied. Improving existing policies to make the proposal development and approval process more predictable will help improve the GCF proposal quality and ambition.
Programme priorities	Private Sector	Decision B.16/03 and B.12/20, Annex I	<i>Welcomes</i> the development of the Private Sector RFP and encourages the GCF to continue to strengthen its engagement with the private sector.	Barriers to private sector engagement with the GCF persist, as we have heard from the Secretariat, Active PSOs, and other stakeholders. Additionally, the PSAG has not met or provided actionable advice to the Board in some time. Maximising private sector engagement is a key objective of the GCF's Strategic Plan.
	Programmatic Approaches	GCF Governing Instrument paragraph 36; B.07/03, paragraph (e)	<i>Requests</i> the GCF, as an operating entity of the Financial Mechanism, to promote the use of programmatic approaches, including national, regional, global, and cross-sectoral programs and to develop a programmatic approach modality to enable program development.	Greater use of programmes is needed to allow GCF to reach the scale of operations it needs to tackle the climate challenge, yet policy and institutional barriers still exist. The most critical to address is development of a programmatic approach modality.
Eligibility criteria				

Annotated suggestions for elements of draft decision on the guidance to the Global Environment Facility

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>	<i>Comments by SCF members</i>
Policies	Safeguards	Joint Summary of the Chairs: 52nd GEF Council Meeting, May 23–25, 2017.	<i>Welcomes</i> the GEF Council’s decision to begin the process of updating its Minimum Agency Standards and Fiduciary Policies and <i>requests</i> that updates on this work be included in the GEF’s report to COP-24.	The GEF Council has decided to begin the process of reviewing and updating its safeguards to align with best international practices and standards. This is a positive step to increase the rigor of the projects the GEF funds.
	Ethics Policy	Joint Summary of the Chairs: 52nd GEF Council Meeting, May 23–25, 2017 and GEF/C.52/04.	<i>Welcomes</i> the Council’s approval of the Policy on Conflicts of Interest and Ethics.	This represents a positive step in the GEF Council’s updating of its ethical standards and rules to align with international best practice and standards.
Programme priorities	Private Sector	IEO Evaluation of GEF’s Engagement with the Private Sector, May 2017	<i>Encourages</i> the GEF to focus on strengthening institutional capacity and transforming policy and regulatory environments to better engage the private sector.	The IEO found that these critical elements help encourage the private sector to make more environmentally sustainable investment decisions.
Eligibility criteria				

Annex II

Submissions received from a Party on draft guidance to the operating entities¹⁰

Submission from the Republic of Estonia and the European Commission on behalf of the European Union and its member states

This submission is supported by Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia.

Tallinn, 11/09/2017

Subject: Views and recommendations on the elements to be taken into account in developing guidance to the Global Environmental Facility and the Green Climate Fund

Summary of key points

- The EU would like to reiterate the importance of a distinction between more durable core guidance to the Financial Mechanism and annual additional guidance. In this context, there is a need to consider very carefully whether any additional guidance is required at this juncture.
- We welcome the ongoing work to strengthen the operations of the GCF and to generate high quality funding proposal in line with the Fund's mandate.
- The EU encourages both the GCF and the GEF to consider ways to ensure the alignment of the asset management by the trustee with the goals set in the Paris Agreement as well as with international best practice for environmental, social and governance standards.
- The EU looks forward to the outcome of this work to be presented in the report of the SCF to the COP.

I. Introduction

The EU and its Member States welcome the opportunity to send inputs for consideration by the SCF for developing guidance to the operating entities of the Financial Mechanism (FM). We would like to reiterate the importance of the SCF analysis of past guidance in order to establish a distinction between more durable *core guidance* to the FM to be revised mainly on the basis of the regular reviews of the FM, and *annual* additional guidance. We believe this work is key to reducing redundancies, incoherence, and inconsistencies within the guidance provided to the operating entities.

¹⁰ Latest submissions from Parties can be found in the UNFCCC Submission Portal:

<http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionfrom=Parties&focalBodies=COP>.



Similarly, the EU also refers to the request by COP20 to the SCF to provide advice on the issue of the *frequency* of the guidance to the Financial Mechanism. In this context we welcome the work done thus far by the SCF and look forward to further recommendations to the COP23. Furthermore, we would like to note that giving guidance to the operating entities should be limited to the specific agenda item under COP. Other constituted bodies are invited to send their inputs to the SCF which should help in this regard.

II. Annual guidance to the GEF and the GCF

When it comes to specific annual guidance to the GEF and the GCF respectively, the EU requests the SCF to review the guidance provided by COP22 and the annual reports of the GEF and the GCF to COP23 on how this guidance has been implemented, and to consider very carefully whether any additional guidance is required at this juncture. In this context, if additional guidance is considered necessary, we would encourage considering complementarity and division of labour between the two operating entities of the FM recognising the comparative advantages of each entity. Recent literature on the climate finance architecture could be taken into account in these considerations.

Though generally speaking the EU would refrain from giving additional guidance to the operating entities we would like to reiterate that as the negotiations for the 7th replenishment for the GEF are ongoing and will be finalised in spring 2018; COP23 could be the time to give more strategic and forward looking guidance as a result of the Paris Agreement. It is important to note that after the replenishment period has started in July 2018 the GEF will have less flexibility to respond to new guidance given by the COP. From our point of view, the priority areas within the GEF for climate change are supporting capacity building and enhancing enabling environments, including for technology development and transfer, in order to support implementation of the Paris Agreement. Also sufficient resources should be targeted towards fulfilment of reporting obligations as they build the ground for monitoring progress. Furthermore, we believe programming by countries should continue to be aligned with priorities included in intended nationally determined contributions (INDCs) as well as in other national climate change strategies. Finally, we encourage synergies that could help maximising results across the focal areas and Multilateral Environmental Agreements for which the GEF acts as financial mechanism.

With regards to the GCF, the EU welcomes the ongoing work to strengthen the operations and transparency of the Fund and to generate high quality funding proposals in line with the Fund's mandate to promote the paradigm shift towards low emission and climate-resilient development pathways. In this context we encourage considering options to enhance and accelerate the project cycle. Finally, we recognise the steps taken towards providing more clarity on how the GCF can support activities in the forestry sector aimed at reducing emissions from deforestation and forest degradation (REDD+) in developing countries.

The EU would like to underline that in order to reach the goals set in the Paris Agreement financial flows need to be transformed and aligned with a pathway towards low greenhouse gas emissions and climate-resilient development. In this context, we would like to commend the initial discussions in the GEF on options for greening the investment portfolio. We encourage both the GCF and the GEF as the operating entities of the financial mechanism of the UNFCCC and the Paris Agreement to consider adopting an investment policy or similar guidance to make sure that the asset management by the trustee is aligned with the goals set in the Paris Agreement as well as with international best practice for environmental, social and governance (ESG) standards.

The EU also considers relevant that the cooperation and coordination continues between the two operating entities of the Financial Mechanism in order to enhance effectiveness and efficiency among the two entities and also with other climate finance delivery channels. In this context we welcome the decision by the GCF on the Operational Framework on complementarity and coherence. Finally, as the

COP gives guidance this year we should take into consideration the work and the deliberations on the 6th review of the FM to the extent possible.

III. Closing remarks

We highly appreciate the work done so far by the SCF in providing advice to the qualitative improvement of providing guidance to the operating entities of the FM. We stress the importance of the SCF's work to assist the COP in making efficient use of negotiating time and hope that the draft guidance by the SCF is agreeable to Parties as such. In this context we reiterate our request to the SCF to consider carefully where additional guidance is necessary and to appropriately focus its work in this regard. We look forward to the outcome of this work to be presented in the report of the SCF to the COP.
