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SUBSIDIARY BODY FOR IMPLEMENTATION
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Item 4 of the provisional agenda
Financial mechanism of the Convention: fourth review of the financial mechanism

Review of the financial mechanism referred to in decision 6/CP.13

Submissions from Parties

1. The Conference of the Parties, by its decision 6/CP.13, invited Parties to submit to the secretariat, by 21 March 2008, their views on documents FCCC/TP/2007/4 and FCCC/SBI/2007/21, presented at the twenty-seventh session of the Subsidiary Body for Implementation (SBI), the report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change[1] and options for scaling up the international financial response to climate change, based on national experiences and on available relevant documents. It requested the secretariat to compile these submissions for consideration by the SBI at its twenty-eighth session.

2. The secretariat has received nine such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced[*] in the language in which they were received and without formal editing.

[1] <http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gef/application/pdf/dialogue_working_paper_8.pdf>.

[*] These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

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* This submission is supported by Bosnia and Herzegovina, Croatia, Serbia and Turkey.

PAPER NO. 1: BRAZIL

Submission of Brazil on the Fourth Review of the Financial Mechanism (6/CP.13)

1. The Government of Brazil welcomes the opportunity to provide preliminary views on the documents referred to in paragraph 2 of decision 6/CP.13, for consideration by the SBI at its twenty-eighth session.

2. The review of the financial mechanism should be comprehensive and oriented to the needs of Non-Annex I Parties for funding for mitigation and adaptation activities, as well as technology development and transfer related to such activities.

3. The Government of Brazil recalls the COP arrangement with the GEF as an entity entrusted with the operation of the financial mechanism of the Convention. In this light, special attention should be given to the Annex to the Memorandum of Understanding between the COP and the Council of the GEF, which states, inter alia, that the "COP and the Council [of the GEF] would jointly determine the aggregate GEF funding requirements for the purpose of the Convention"[1].

4. The Government of Brazil calls attention to two specific issues that should be addressed urgently by the COP and the GEF Council: financial support for preparation of National Communications from Non-Annex I Parties and technology development and transfer.

5. These considerations do not preclude any further comments by Brazil on any issue identified in the documents referred to in decision 6/CP.13 during the process of the Fourth Review.

- Provision of financial support for the preparation of National Communications from Non-Annex I Parties

6. The Government of Brazil has repeatedly referred to the issue of the provision of financial support for the preparation of subsequent National Communications from Non-Annex I Parties as one of the main concerns of developing countries in relation to the role of the Global Environment Facility in this process.

7. Article 4.3 of the UNFCCC states that, "The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country parties" in preparing their national communications. Arrangements under the GEF to provide resources for such activities should take fully into consideration the Convention text, including funding commitments of Annex II Parties.

8. Furthermore, the COP has decided that "non-Annex I Parties shall make all efforts to submit their second and, where appropriate, third national communication, within four years of the initial disbursement of financial resources for the actual preparation of the national communication". It has also decided that "non-Annex I Parties that have submitted their national communications should apply for the financing of their subsequent national communications at any time between three to five years of the initial disbursement." [2]

9. The GEF must take all measures necessary to allow Parties not included in Annex I to start the process for subsequent National Communications support before completing their current National

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[1] Decision 1/SBI 4, document FCCC/SBI/1996/14, 5th February 1997, p. 7.

[2] Decision 8/CP.11, para. 3.

Communications. This would help to avoid discontinuity in project financing, in light of the continuing nature of the process of national communications, as mandated by the COP in the previously-mentioned decisions.

10. The Government of Brazil reiterates that any GEF arrangement for the provision of financial support for the preparation of National Communications from Non-Annex I Parties should take into consideration Article 4.3 of the UNFCCC. In this light, it is unacceptable that the agreed full costs be deducted from national or group allocations under the Resource Allocation Framework (RAF).

11. Furthermore, the Government of Brazil recalls that the GEF has not been given the mandate by the COP to evaluate the content of non-Annex I Parties' National Communications. Any such activity would clearly encroach upon the authority of the COP. The GEF's role is to provide resources in line with the guidance provided by, and accountable to, the COP, which shall decide on the GEF's policies, program priorities and eligibility criteria, as stated in Article 11.1 of the UNFCCC. Decision 17/CP.8 further provides the guidance that must be considered by non-Annex I Parties in their National Communications. The GEF cannot indicate, suggest or adopt any criteria for this exercise beyond what has been agreed by the COP.

12. The umbrella project established under GEF-3 channels resources to most of the second National Communications activities of non-Annex I country Parties during the GEF-4 period. However, the GEF has still not provided a clear indication on what will entail after those countries conclude their second National Communications and subsequently initiate preparations for their third, still during GEF-4. The GEF must present a clear funding strategy for subsequent National Communications that clearly recognizes that the preparation of National Communications is a continuing process, as acknowledged by the COP in the preamble to Decision 8/CP.11.

13. These concerns do not apply solely to GEF-4. Brazil strongly believes that that this issue must be duly accounted for in assessments and evaluations of the performance of the GEF as an entity entrusted with the operation of the financial mechanism, as well as in the negotiations leading to the Fifth Replenishment Period (GEF-5).

- *Development, deployment and transfer of technology*

14. The Government of Brazil strongly believes that it is necessary to establish new financing mechanisms and tools for scaling up the development, deployment and transfer of technology to support action on both mitigation and adaptation to climate change in accordance with Article 4.3.

15. Significant steps must be taken to finance the transfer of, access to and development of environmentally sound technologies and know-how, particularly with a view to strengthening autonomous capacity in developing countries, for both mitigation and adaptation, in accordance with the principle of common but differentiated responsibilities and respective capabilities.

16. The Government of Brazil considers it is paramount, in the drafting of the strategic program to scale up investment mentioned in decision 4/CP.13, paragraph 3, that the GEF undertake a broad process of consultations with all interested Parties. Although this is an issue considered under the SBI agenda item on technology transfer and development, it is important that the Fourth Review take into consideration the progress made by the GEF in responding to the request in decision 4/CP.13 as part of the evaluation of its role as a financial mechanism of the Convention.

PAPER NO. 2: INDONESIA

Fourth Review of the Financial Mechanism

Indonesia Submission[1]

Introduction:

Indonesia appreciates the results made by all parties to successfully conclude the negotiation on the fourth review of the financial mechanism at the Conference of Parties 13 UNFCCC 2007 in Bali. Indonesia believes that the decisions of the COP 13 UNFCCC on the fourth review of the financial mechanism would be critical starting point to discuss various options to improve the level of funding availability for developing countries to act on climate change adaptation and mitigation efforts.

Moreover, Indonesia welcome and take a note on the two documents[2] submitted by the secretariat and Global Environmenta Facility (GEF) prior to the COP 13, as recommended by COP 12, 2006. UNFCCC Dialogue working paper 8. 2007[3] would also be taken into account as one of our reference to support several aspects in this submission. Among other available relevant documents and literatures, Indonesia has mainly used those three documents to develop this submission.

To conduct the review, Indonesia suggests that all parties also decides 1) outstanding issues; 2) policy and strategy; and most importanly is 3) wide options for future financing mechanism of the convention. To be consistent with our suggestion, this submission will also include those three aspects.

Outstanding Issues of Current Financing Mechanism:

Having examined those three documents and review several others documents which are related to financing issues for development, Indonesia would like to point out several concerns and issues:

1. Indonesia concern on the issues of current and future level of funding available for mitigation and adaptation action to achieve the objectives of the convention. As the funding for mitigation and adaptation actions require substantially large amount of funding and in contrary the availability of the funds through the existing financial mechanism are limited, the parties of UNFCCC have to put more attention to solve this issues.

2. As the impact of climate change has been experienced through out the region of developing countries in the past several years, Indonesia and with other most vulnerable non-annex 1

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[1] Prepared by Indonesia National Development Planning Agency (BAPPENAS), the Office of Deputy for Environmental and Natural Resource Affairs

[2] FCCC/SBI/2007/21: An Assessment of the funding necessary to assist developing countries in meeting their commitments relating to the Global Environmental Facility replenishment cycle; AND FCCC/TP/2007/4: Review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries

[3] Dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention

countries could not bear the funding of climate change activities by themselves. Hence, the Annex 1 countries, which suppose to take a lead in the process of reduction the impact of climate change, must support the efforts of developing countries to achieve the objectives of the convention and sustainable development through provision of funding assistance using various options of financial mechanisms.

3. Indonesia also concerns on the issues of access of fundings to various existing source of fundings in the convention financial mechanism and other sources of fundings. Some barriers, such as incremental fund and lengthy procedures of the implementing/ executing agencies, are imposed to source of funding, has created more burden to the non-Annex 1 countries to use the funds immediately. Therefore, improvement of procedures to access the funds is important to consider in the fourth review of the financial mechanism.

Policy and Strategies of the Fourth Review of FM:

As the funding available for mitigation and adaptation of climate change is limited, all parties have to open some rooms for innovations during the fourth review of financing mechanism. This would be major policy of the convention when parties conduct the review. Indonesia also suggests two major strategies of the review which mainly include the expansion of 1) magnitude and 2) scope of the existing financing mechanism. The objectives of magnitude expansion are to increase the level of funding available and to improve the access of funding on the existing mechanism. Meanwhile, the objectives of scope expansion is to develop new options for new funding mechanism to increase the level of funding through the convention and also to provide flexibilities for non-annex 1 countries to access non-convention fundings source and hence they could be recorded as contributions by the convention.

These policy and strategies have to become the salient principles when we conduct the fourth review of the financial mechanism. They must be discussed and agreed by the parties to operationalise the Bali Action Plan. Moreover, the policy and those two major strategies could also enrich various financing options which can be discussed prior to the mitigation and adaptation activity implementation in second periode of committment of Kyoto Protocol (post 2012).

Options for Fourth Review of FM:

Based on policy and strategies mentioned above, Indonesia proposes several financing options to be carefully discussed during the next COP as follows:

1. **Options for the expansion of magnitude the existing financing mechanism**

The level of funding availabel in the existing financing mechanism can be increased through:

1. a) increasing donors contribution to the Global Environmental Facility (GEF);

The amounts of funding available in the climate change area of GEF is inadequate to fulfill the request of developing countries to undertake necessary actions to achieve the conventions. There have been many cases that the GEF could not bear to finance the project proposals made by developing countries. Special Climate Change Fund (SCCF) and Least Developed Countries Fund (LDCF) which supposed to become big baskets of fund for adaptation actions have failed to play its role to catalyse the implementation of action plan made by developing countries. Over-subscribe proposals occured for SCCF and LDCF in which cannot be tolerated in the future. Moreover, the available mechanism in climate change focal area of the GEF, such as Resource Allocation Framework (RAF) and Strategic Priority of Action (SPA), have been unsuccessful to overcome the increasing demand of developing countries to implement actions to achieve the convention and sustainable development objectives.

As the GEF funding source rely heavily on donor contributions, there is no strategies besides to increase the fund from developed countries to GEF. Committment made by developed countries in GEF 4th replensihment cycle must be kindly increased significantly. Likewise, the developed countries must not divert theirs ODA sources to the GEF basket. It is obvious that the developed countries need to dig out their new own internal funding sources to fill-up the funding gaps in the GEF current situation.

Classical problems in accessing funding of GEF have to be solved out immediately. Eventhough Indonesia welcomes current reform of GEF, we still would like to see that some major principles, such as imposing of incremental funds, and operational constrains, such as lengthy procedure and time consuming process, in the GEF, need to be improved without delay.

In short, we believe that increasing donor contribution to GEF in climate change focal area through existing convention financing mechanism and improving GEF management could assist the developing countries to cope with current harmful climate change impact.

1. b) increasing the amount of Adaptation Fund:

Indonesia appreciates great efforsts made by all parties in concluded the Adaptation Fund negotiation in COP/MOP 3 2007 Bali. Even though the adaptation fund can be operationalised soon, the potential adaptation fund available will not be sufficient enough to cover demand developing countries as parties of Kyoto Protocol. Furthermore, few studies indicated that the amount also depends on success of post kyoto negotiation. Hence, there should be more effort to increase the Adaptation Fund within the improvement of current framework which have been agreed by all parties. Having said that, Indonesia suggests that all parties will have to agree to impose same levy on CDM to the credits obtained from the Joint Implementation (JI) and Carbon Trading activities.

Indonesia believes this option can be discussed and agreed prior to the 2012 so that developing countries can prevail over the problems caused by climate change immediately.

2. <u>Options for the expansion of scope of the existing financing mechanism</u>

Indonesia argues that fourth review of financial mechanism has to consider wide range of new options of mechanism. Few new options which have been applied in other convention or bilateral cooperation can be replicated into the convention. Further more, Indonesia suggests that voluntary fundings initiated by developing countries can be used also to enahnce financing options for managing the issues of climate change. Considering previous argumentation, there are four new financing options which we will propose:

a. Technology Transfer Fund
b. REDD funds
c. Voluntary developing countries fund

All these options are expected to be recorded by all parties and to be considered as part of global efforts to overcome the impact of climate change.

2.a. Technology Transfer Fund. As it has been agreed in COP 13, technology transfer will have to be financed through several options of financing scheme. Even though the parties agree to increase donor contributions to GEF, we believe that the fund will not be adequate to bear the cost of technology transfer. To overcome it, Indonesia suggests that all parties will exercise some features for financing technology transfer created in the Montreal Protocol. Montreal protocol has been known as one of the successful multilateral environmental convention which effectively reduced the ozone depleting substance (ODS). Its financing mechanism has been proven and effectively applied by parties of the protocol. As the Montreal Protocol approach has been widely accepted by most parties of the convention, we believe the agreements for technology transfer fund can be achieved much smoother.

2.b. REDD Fund. Indonesia appreciates the results of negotiation of REDD at COP 13 2007 in Bali 2007. Some methodology which are expected to be agreed prior to 2012 will influence the level of funding available for REDD implementation. As the global fund for REDD is significantly increasing in the last few years, those global efforts have to be recorded in the convention as contribution to overcome the impact of climate change. However, the developed countries which contribute to REDD fundings must ascertain that source of fund will not divert the ODA that developed countries have already committed.

2.c. Voluntary Developing Countries Fund. It has been obvious that parties of developing countries of the Convention have made enormous efforts voluntarily to overcome the impact of global climate change. Developing countries have allocated their own funding to act on mitigation and adaptation measures without knowing that they have contributed voluntarily to the achievement of convention objectives. However those efforts were not recorded and recognised by the Convention.

In line with Article 3 para 4 of the Convention, policies and measures of related climate change activities should be integrated with national development programmes. As awareness of the decision makers is getting improved, policies and measures of climate change which have been incorporated into national development plan, is included automatically. In most recent, developing countries prepare their own development plan and using climate change as one of the major issues for theirs development issue. Furthermore, voluntary internal funding commitment from developing countries to act on mitigation and adaptation measures would increase. Indonesia propose that this kind of voluntary efforts by developing countries can be claimed to the Convention as contribution made by developing countries. This effort have to be recorded along with Decision made in Bali Action Plan, item 1.b.(ii)[4].

Closing Remarks:

We believe that several outstanding issues, policy and strategy and options that we have proposed above, could become good starting points to discuss the Fourth Review of Financing Mechanism.

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[4] 1. *Decides* to launch a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012, in order to reach an agreed outcome and adopt a decision at its fifteenth session, by addressing, inter alia: … (b) Enhanced national/international action on mitigation of climate change, including, inter aliaconsideration of: :… (ii) Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner;

Bearing in mind that supply and demand of funding would still be un-balanced for upcoming years, we encourage all parties of the Convention to have open mind and produce solution orientation during the review process. We have faith in our good cooperation that all parties have made so far to achieve good result in this fourth review process.

PAPER NO. 3: JAPAN

Submission by Japan to the UNFCCC

21 March, 2008

Japan welcomes the opportunity to submit views on the issues regarding paragraph 2 of the COP13 decision 6 "Fourth review of the financial mechanism".

1. Financial arrangement under the GEF
"An assessment of the funding necessary to assist developing countries in meeting their commitments relating to the Global Environment Facility replenishment cycle" (FCCC/SBI/2007/21, 14 November 2007)(Paragraph 2 (b) of 6/CP.13)

Japan's opinion on the GEF operation is as follows:
(i) Regarding the issue of co-financing, Japan highly commends the GEF's operation by which external funding has been mobilized successfully. Japan is in the opinion that such operational policies to solicit external funding should be maintained.
(ii) As for Resource Allocation Framework (RAF), Japan supports the system as it ensures a performance-based efficient fund management. It is too early to judge the efficiency of the system, and Japan will continue looking after their performance carefully.
(iii) Japan also pays close attention to the GEF's commitment to improve their operation, which is shown in their Reform Agenda.

2. On international financial arrangements
"Review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries" (FCCC/TP/2007/4, 21 November 2007) (Paragraph 2 (a) of 6/CP.13)
"Report on the analysis of existing and potential investment and financial flows. relevant to the development of an effective and appropriate international response to climate change" (Dialogue working paper 8. 2007) (Paragraph 2 (c) of 6/CP.13)

Although private finance should be the main source of such investment, especially in the immediate future, public finance need to exercise functions such as to mobilize external funding, to formulate policy frameworks, and to promote the introduction of low carbon technology. Given the importance of public finance today to build a low-carbon society in future, the multilateral fund currently being discussed mainly among Japan, U.S., U.K. in collaboration with the World Bank would generate a significant impact to assist climate change countermeasures, for both mitigation and adaptation.

Coordination between multilateral funds and the various bilateral initiatives for climate change such as Japan's "Cool Earth Partnership" should be improved in order to make the most effective use of our limited financial resources.

3. How to scale up international financial flow for Climate Change
Options for scaling up the international financial responses to climate change based on national experience and on available relevant documents;(para2(d)of 6/CP.13);;

It is obvious that private finance should become the main source of investment for climate change in the long run. In order to promote investment, it is also necessary to identify areas and fields in which we expect emission reduction to a large extent, as well as the mitigation potential of these areas. To this end, the expertise of specialized organizations such as IEA should be utilized.

It is also necessary to develop human resources as well as institutional systems and other systems, including the protection of intellectual property rights in developing countries, to promote private sector investment projects. These should be focused in providing multilateral and bilateral assistance for building a favorable investment foundation. Japan has been promoting technical assistance with regards to this point of view.

Japan also contributes to mobilizing private investment through CDM. There are 123 Japanese CDM projects that are already registered to CDM Executing Board and GHG to be reduced amounts to 77 million tons/year, which accounts for 21% of the total CDM projects.

PAPER NO. 4: NIGERIA

VIEWS SUBMITTED BY NIGERIA ON THE FOURTH REVIEW OF THE FINANCIAL MECHANISM OF THE UNFCCC

1. The Conference of Parties, at its 13th Session, invited Parties to make submissions regarding their views on various reports related to the financing of the implementation of the Convention, and other options for ´scaling up the international financial response to climate change´. The submissions are to be considered by the Subsidiary Body for Implementation (SBI) during its 28th Session in June 2008. In line with this call by the COP, Nigeria is therefore forwarding it view as to the potential issues for review during the Fourth review of the Financial Mechanism.

2. Nigeria notes with concerns that all the Funds under the Conventions including the Special Climate Change Fund, the Least Developed Countries Fund among others are grossly inadequate to tackle the problems of climate change in the developing countries in general and Africa in particular. The review should therefore consider scaling up of funds to address the problems of climate change.

3. Apart from the inadequacy, it is also notes that the funds are apparently inaccessible and hence, not at the disposal of the developing countries for the purpose of implementing their obligations as required under the Convention. The issue of conditionality has been a major problem to accessing funds under the Convention. This has particularly limited accessibility to necessary funds by the developing countries in general and the Least Developed Countries in particular. Most of the projects identified under NAPA have not received funding for their implementations. The review should, in all seriousness, consider the elimination of the issue of co-financing to ensure accessibility to necessary funds for project implementations towards mitigating climate change.

4. We have always stressed that the developing countries should also be availed the opportunities of other financial resources, in particular, the ODA as well as others on regional, bilateral and multilateral bases. This is because the highlighted sources have been recognized by the Convention.

5. One of the obligations required of the developing country Parties is the preparation and submission of national communications under the United Nations Framework Convention on Climate Change. The exercise has usually being funded through the GEF. However, the inclusion of funds meant for the preparation of national communication in the Resource Allocation Framework has been a source of concern not only to Nigeria but others members of the developing country group. We have argued several in different fora that due to differences in national circumstances, any Party may decide to use the fund in the envelop for implementing other activities which are of priority. The implication of such arbitrary allocation of fund in the envelop could therefore negatively affect allocation for the preparation of national communication. At the end, some developing country Parties may end up with sub standard documents.

6. The Review should therefore consider fund meant for the preparation of National Communication not to be included in the RAF.

PAPER NO. 5: PHILIPPINES

PROPOSED PHILIPPINE SUBMISSION ON THE FOURTH REVIEW OF THE FINANCIAL MECHANISM OF THE UNFCCC

MANDATE

The decision on the Fourth Review of the Financial Mechanism taken at the 13th Session of the Conference of the Parties (COP13) to the UNFCCC, adopted additional guidelines for the review of the financial mechanism and invited Parties to submit their views on various reports related to the financing of the implementation of the Convention, and other options for "scaling up the international financial response to climate change..."

The submissions will form part of the consideration by the SBI at its 28th session in 2008 with a view to drafting two decisions, the first, for the adoption of the COP at its 14th session in implementation of the Annex to the MOU with the GEF, as an operating entity of the financial mechanism, in time for the consideration of the GEF in its negotiations of its 5th replenishment.

The second draft decision, for the adoption of the COP no later than its 15th session in 2009, will be on the review of the financial mechanism of the Convention, on the basis of the additional guidelines contained in the annex to the COP13 decision, and in the annex to decision 3/CP.4.

OBJECTIVE

This submission will provide preliminary views for discussions related to both proposed decisions. It therefore contains the general views of the Philippines on the provision of financial resources for the full and effective implementation of the Convention, as its initial contribution to the discussions to be undertaken both under the SBI, as well as the *ad hoc* working group on long-term cooperative action, which includes "enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation…" as a main element for long-term cooperative action.

Views and comments will be based on the various papers listed under Decision x/CP.13, operative para. 2 (a) to (d). The first three papers are cross-referenced papers of the UNFCCC secretariat and therefore are treated together.

Background (All bold references in articles and decisions are supplied for the purposes of this submission)

1. Article 11.1 of the Convention defines its financial mechanism as "a mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology. It shall "function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its political programme priorities and eligibility criteria related to the Convention." It also provides that the operation of the financial mechanism "shall be entrusted to one or more existing international entities."

2. Article 11.4 further provides that the COP1 shall decide whether the interim arrangements in Article 21.3 will be maintained. **Within four years thereafter, the COP shall review**

the financial mechanism and take appropriate measures. Article 21.3 refers to "interim arrangements" and states that the Global Environment Facility of the UNDP, UNEP and the World Bank "shall be the international entity entrusted with the operation of the financial mechanism…on an interim basis." It adds that the GEF should be appropriately restructured and its membership made universal to enable it to fulfil the requirements of Article 11.

3. Article 11, in its paragraph 5, also stated that "the developed country Parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multinational channels." **All possible sources of financing for the implementation of the Convention have therefore been recognized under the financial mechanism of the Convention.**

4. Decision 9/CP.1 maintained the interim arrangements and decided that GEF shall continue as the entity operating the financial mechanism on an interim basis, **subject to a review every 4 years, "including a determination of the status of the GEF in the context of the Convention**." Decision 10/CP. 1 also referred to arrangements with "an operating entity or entities of the financial mechanism." (Please note that titles given to decisions are not negotiated and therefore are given only to facilitate the identification of the decision.) At the same time, in Decision 11/CP.1, the COP adopted the initial guidance on policies, programme priorities and eligibility criteria for "**the operating entity or entities of the financial mechanism"**, leaving the door open for other entities to operate the financial mechanism of the Convention.

5. The Memorandum of Understanding between the COP and the GEF Council was adopted by Decision 12/CP.2, which also took note in its operative paragraph 1 of the report of COP1 which states that the COP should receive and review at each of its sessions a report from the GEF. In para. 12 of the MOU, therefore, it stated that the COP will "periodically review and evaluate the effectiveness of all modalities established in accordance with Article 11.3. **Such evaluations will be taken into account by the COP, in its decision, pursuant to Article 11.4, on arrangements for the financial mechanism."**

6. Decisions on guidance to the GEF as "**the <u>interim</u> operating entity** of the financial mechanism of the Convention, started with Decision 11/CP.2, containing a series of policy guidance (operative para. 1, a to e) to address concerns over "the difficulties encountered by developing country Parties in receiving the financial assistance from the GEF owing to, inter alia, the application of the GEF operational politicise on eligibility criteria, disbursement, project cycle and approval, the application of its concept of incremental costs, and guidelines which impose considerable administrative and financial costs on developing countries" (preambular para. 5).

Subsequently, year after year, COP after COP, decision after decision on guidance, reiterated the same and similar difficulties encountered by developing countries on funding, in particular as concerns access, the application of the incremental cost concept, agreed full costs for non-Annex I national communications, simplification of procedures, disbursement of funds, problems with implementing agencies, etc… Problems were compounded recently through the implementation of the Resource Allocation Framework (RAF), a pre-allocation of resources based on World Bank indicators that have not been consulted with the COP, and such practices as co-financing (used apparently for leveraging funds, but applied even before funds are received).

7. After the first four-year review, in 1998, the COP adopted Decision 3/CP.4 which decided that "the restructured GEF shall be **an entity** entrusted with the operation of the financial mechanism referred to in Article 11 of the Convention" (operative para. 1) and also that "in accordance with Art. 11.4 of the Convention, (to) review the financial mechanism every 4 years, on the basis of the guidelines as contained in the annex to this decision, **or as they may be subsequently amended, and to take appropriate measures." After the first review therefore, the COP recognized that the financial mechanism should remain open to other opportunities to mobilize financial resources for the implementation of the Convention, including widening the institutional arrangements.**

8. The Annex to the MOU with the GEF on the "Determination of funding necessary and available for the implementation of the Convention" was adopted by Decision 12/CP.3, a year after it was approved by the COP. The Annex states that "the COP will make an assessment of the amount of funds that are necessary to assist developing countries, in accordance with the guidance provided by the COP, in fulfilling their commitments under the Convention over the next GEF replenishment cycle…" (*chapeau* of operative para. 1) and that the "GEF replenishment negotiations will take into account the COP's assessment" (operative para. 2). Operative paragraph 3 of the Annex provides for the reporting of the GEF on the action taken with respect to its provisions, and states that **"The COP may, in its action on the GEF reports, consider the adequacy of the resources available for implementation of the Convention."** The process will then be reiterated at each GEF replenishment, which will **"present the opportunity to review the amount of funding necessary and available for the implementation of the Convention in accordance with Article 11.3 (d)"** (operative para. 4)

9. It is thus that the Convention and the COP decisions fully provide for the opportunity to review the adequacy of the financial resources required for the implementation of the Convention. **It also then paves the way for the COP to identify, <u>within the financial mechanism of the Convention</u>, "enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation…" as provided for in operative para. 1 (e) of Decision 1/CP.13 on the Bali Roadmap, as part of long-term cooperative action to enable "the full, effective and sustained implementation of the Convention**.

10. The series of decisions likewise demonstrate that the opportunity remains open for the COP to decide, based on the review of the adequacy of financial resources available for the implementation of the Convention, **to allow the financial mechanism to make use of all possible means, such as other operating entities of the financial mechanism, to ensure that the Convention is fully and effectively implemented, in a sustainable manner.**

The commitment for the provision of financial resources under the Convention is laid out in Article 4.3 of the Convention

Article 4.3 provides that "the developed country Parties and other developed Parties included in annex II shall provide **new and additional financial resources to meet the agreed full costs** incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1." (relating to national communications of each Party).

It also states that "they (developed country Parties and Annex II Parties) shall provide such financial resources, **including for the transfer of technology**, needed by developing country Parties **to meet the agreed full incremental costs of implementing measures that are covered**

by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article."

Article 4.1 of the Convention covers commitments by all Parties related to national communications, promotion and cooperation in the development, application and diffusion, including transfer, of technologies, practices and processes for mitigation in various sectors (Art. 4.1 c) as well as for adaptation (Art. 4.1 d and e), taking climate change considerations into relevant social, economic and environmental policies and actions with a view to minimizing adverse effects on the economy, public health and on the quality of the environment (Art. 4.1 f), cooperation in research and systematic observations to reduce uncertainties, and exchange of information, both to address the "economic and social consequences of various response strategies," (Art. 4.1 g and h) , and promotion in education, training and public awareness related to climate change, and "encourage the widest participation in this process, including that of NGOs (Art. 4.1 i), and finally to communicate to the COP information related to implementation, in accordance with Art. 12 (Art. 4.1 j).

The commitments under the Convention therefore cover all possible areas of domestic actions related to climate change, including the integration of climate change considerations in development policies and actions, as well as all areas of global promotion and cooperation in mitigation and adaptation actions.

Finally**, the key to the balance of common but differentiated responsibilities under the Convention is given in Article 4.7** which reads as follows:

"The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties."

The financial mechanism of the Convention is the channel through which commitments of developed country Parties on the provision of financial resources, including for the transfer of technology, as defined in Article 4.5, are implemented. The other sources of financing, in particular ODA which is bilateral, are covered by Article 11.5.

VIEWS (based on the three papers listed in op. para 2 (a), (b) and (c) of the Decision x/CP.13

1. All three papers clearly demonstrate that funding currently available to developing country Parties through the financial mechanism of the Convention for the implementation of the Convention remains, and is likely to remain, woefully inadequate to meet all financial needs, including for technology needs.

2. Figures of amounts of financing provided under an increasing number of programs mentioned in the papers need further analysis to demonstrate clearly whether they directly respond to the needs of developing countries for the implementation of the Convention and to achieve its objective, not only its ultimate objective, but also to ensure that "food production is not threatened and to enable economic development to proceed in a sustainable manner."

3. Financing, including through loans, from international funds, multilateral and regional financial institutions should be examined in accordance with the Decision 11/CP.1 (Initial

guidance on policies, programme priorities and eligibility criteria to the operating entity or entities of the financial mechanism), operative para. 2 (a) which states:

"Outside of the framework of the financial mechanism:

Consistency should be sought and maintained between activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism, and the policies, programme priorities, and eligibility criteria for activities, as relevant, established by the Conference of the Parties. Towards this end, and in the context of Article 11.5 of the Convention, the secretariat should collect information from multilateral and regional financial institutions on activities undertaken in implementation of Art. 4.1 and Article 12 of the Convention; this should not introduce new forms of conditionalities."

The decision therefore provides that the secretariat should collect the information from these institutions with the end of view of demonstrating the "consistency" with the policies, programme priorities and eligibility criteria for actions, as established by the COP. It is only in this manner that these activities would be considered to contribute to the implementation of commitments undertaken for the achievement of the objective of the Convention.

4. More analysis should be made, for example, of the activities undertaken by these institutions, as well as bilateral institutions, in developing countries, "relevant to climate change". Who determines, under what criteria, and what activities are relevant to climate change. How do these activities support the developing countries in the implementation of their commitments under Art. 4.1 of Convention (please see what activities are covered under Art. 4.1, as summarized above), which implementation will then allow the achievement of the objective, including the ultimate objective of the Convention?

5. The analyses therefore should not merely be confined to quantitative, but also to qualitative analysis. The analyses should like show how these activities are consistent with the policies, programme priorities and eligibility criteria established by the Conference of the Parties, or if they are not. Do they introduce new forms of conditionalities? Under what conditions are these activities, whether financial or in the form of workshops or other capacity-building activities given or conducted? Are these conditions consistent with the decisions of the COP, for example on capacity-building, or the guidelines for national communications?

6. Loans, unless concessional and in accordance with the COP's guidance, are outside of the financial mechanism which requires "grant and concessional basis for the provision of financial resources.

7. The secretariat's paper on the assessment of funding necessary and available for the implementation of the Convention, for consideration during the next GEF replenishment negotiations (doc. No. FCCC/SBI/2007/21), in its Table 1, page 5, shows ever-increasing amounts of co-financing from 1991 to 2006. How do such requirements as co-financing tie up financial resources provided through the Global Environment Facility as an operating entity of the financial mechanism with loans? How many GEF-funded projects are tied up with loans from multilateral or regional financing institutions because of the requirement of co-financing? How does the requirement of co-financing affect the ability of developing countries, especially LDCs, to access GEF funds? How much of country counterpart funds

are used to meet the co-financing requirement of GEF? What proportion of GEF leveraged funds are co-financing funds? How do loans affect the country's capabilities to pursue their development plans?

8. Any assessment of funding necessary and available for the implementation of the Convention should include details which would fully reflect the exact amounts of the available funds, separately from what countries themselves have to put up to access those funds. Any secretariat document also should be carefully titled so as ensure compatibility with the decisions of the COP. Reports of the GEF to the COP should therefore give details of how this information was taken into account in the GEF replenishment negotiations, as stated in para. 2 of the Annex to the MOU (doc. FCCC/CP/1996/9, page 7, as adopted by Decisions 12/CP.3)

9. The secretariat's paper on the assessment of funding for the implementation of the Convention also confirms that the largest share of GEF resource from the Trust Fun has been assigned to long-term mitigation projects (para. 8, page 4). The COP, at the initiative of the developing countries, indeed had to put up two separate funds, the Special Climate Change Fund and the Least Developed Countries fund, to fund adaptation activities, which are part of the commitments of Parties to the Convention, and essential to developing countries. These two funds remain largely underfunded, and rely mainly on donor contributions, again contrary to the provisions of the Convention which require developed country Parties and Annex II Parties to provide "such financial resources, including the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs" of measures under Art. 4. 1 (see summary of obligations under this article in the background, above)., in particular Art. 4. 1 (e) . Adaptation has also been included in the decisions on guidance on policies, programme priorities and eligibility criteria for the GEF since the first COP (decision 11/CP.1).

10. Adaptation remains of highest priority to developing countries. The adverse effects of climate change are being felt worldwide, and scientific assessment state that they would continue to be felt for the next 50 to 100 years, no matter what mitigation activities are undertaken. Adaptation and mitigation are mutually supportive. It is clear that adaptation is necessary for many countries to pursue economic development. It has also been demonstrated that those countries that are most able to mitigate are those that have high development growth rates. The huge majority of developing countries also have limited mitigation capabilities, and of these, many are particularly vulnerable to the adverse effects of climate change. The focus on mitigation alone is therefore contrary to the interests of many developing countries.

11. Adaptation financing has to receive particular attention from all sources of financing. Adaptation financing need not be at huge costs, as has been shown by the Small Grants Program of the GEF. It likewise encourages innovative thinking and design of activities, for those particularly vulnerable to the adverse effects of climate change, the SIDS and LDCs (para. 16, page 6 of the secretariat assessment paper).

12. The paper on the Review of experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries (FCCC/TP/2007/4), in its para. 170 also shows that "only a small portion of (it is) lending directly to adaptation projects, and that these have "focused on analytical work, capacity-building and impact assessments." There are mechanisms within the Convention that are already undertaking these activities. Instead of

focusing on these activities, multilateral and regional financing institutions should take into account and base their financing programs on adaptation findings and information already available under convention mechanisms (national communications, NAPAs, TNAs, etc…) the same would go to the activities on mitigation undertaken by these institutions. There should be closer collaboration between these institutions and the Convention on these activities, in order to avoid duplication of efforts and maximization of the use of available resources.

13. All of these clearly demonstrate that there need to be a widening of the financial mechanism to include all other activities. As was shown above, the financial mechanism of the Convention allows this.

14. A multilateral climate change fund under the Convention would not only allow Annex I Parties to fulfil their commitments on the provision of financial resources under the Convention, but also allow for consistency and coherence of financing for the implementation of the Convention and the achievement its objective. It would concretely implement long-term collaborative action under the Convention. It would allow for such actions to be reportable, verifiable and measurable, including through the use of the national communications. It could be reported in Annex I national communications in implementation of Article 12.3 of the Convention, which states that "…each developed country Party and each other developed Party included in Annex II shall incorporate details of measures taken in accordance with Article 4, paragraphs 3, 4 and 5" (of the Convention).

15. Such a Multilateral Climate Change Fund could be set up along the lines of the highly successful Multilateral Fund of the Montréal Protocol of the Vienna Convention on the Protection of the Ozone Layer, and would be directly under the authority and guidance of the COP.

PAPER NO. 6: SLOVENIA ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES

SUBMISSION BY SLOVENIA ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES

This submission is supported by Bosnia and Herzegovina, Croatia, Serbia and Turkey

Ljubljana, 27 March 2008

Subject: **Fourth review of the financial mechanism**
Views on:

- **The technical paper on the review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries;**
- **The report prepared by the secretariat, in collaboration with the Global Environment Facility secretariat, on the assessment of the funding necessary to assist developing countries, in accordance with the guidance provided by the Conference of the Parties, in meeting their commitments under the Convention over the next Global Environment Facility replenishment cycle, taking into account paragraph 1(a)-(d) of the annex to the memorandum of understanding between the Conference of the parties and the Global Environment Facility Council (decision 12/CP.3);**
- **The report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change;**
- **Options for scaling up the international financial response to climate change, based on national experiences and on available relevant documents**

Slovenia, on behalf of the European Community and its Member States, welcomes this opportunity to provide its views on the fourth review of the financial mechanism, which will provide an important input to broader discussions on financing and investment in the context of a post-2012 agreement, including with regard to the newly established Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

This submission provides initial EU considerations of the financial flows and investments necessary to effectively address climate change on the basis of the findings of the UNFCCC Secretariat in its paper on Investment and Financial Flows and the other reports referred to in the decision on the 4th review of the Financial Mechanism. It also offers some initial considerations on finance and investment with respect to the Bali Action Plan.

Addressing climate change poses a major challenge to all Parties. Particular challenges for the finance and investment sphere include scaling up and mobilising the financial and investment flows required, developing effective ways to allocate and access the resources, and stimulating the redirecting of particular types of present and future flows – especially those from the private sector – towards low-carbon technologies and investments and measures that reduce vulnerability and increase the resilience of countries, livelihoods and ecosystems.

In the larger context of this global challenge, the UNFCCC will play an important role in providing the framework for action, the incentives and the momentum for action by Parties. In this regard, the financial mechanism of the UNFCCC has and should continue to have a strategic role in supporting measures and programmes that enhance the preparedness of developing countries to meet the challenge of climate change.

The GEF – as the entity entrusted with the operation of the financial mechanism of the Convention operating under the guidance of the COP – plays a special role in catalysing actions to address climate change and piloting new approaches. Continuity and promotion of an integrated approach to environmental challenges is one of its key roles.

This review should be seen as an integral part of future efforts with respect to a post-2012 climate agreement. It is therefore important to take fully into account the Bali Roadmap as it has a bearing on the review of the financial mechanism.

Existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change

The EU appreciates the report of the UNFCCC Secretariat on existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change, which was presented to Parties at the Convention Dialogue in August 2007. It provides a good starting point for continued discussions on financial flows and investment.

The report provides a comprehensive initial understanding of the role of existing mechanisms and estimates of the financial and investment flows which may be needed to return global greenhouse gas emissions in 2030 to current levels which, however, will not limit global average temperature increase to two degrees Celsius– involving both mitigation and adaptation.

The UNFCCC Secretariat has estimated that the additional annual investment and financial flows needed to stabilise emissions in 2030 at current levels may total USD200-210 billion, of which around USD75-80 billion is estimated to be required in non-Annex I Parties. This is in line with other studies that have been conducted recently, such as for the World Bank’s and Regional Developments Bank‘s Clean Energy Investment Framework, the Stern Review, as well as our reading of the most recent IPCC 4th Assessment report. While many studies have been conducted with a view to establishing the cost of adaptation, it remains difficult to quantify those costs. The report of the UNFCCC Secretariat estimates that the global financial flows needed for adaptation in 2030 amount to a range of approximately USD 49-179 billion, of which $US 28-67 billion is estimated to be required in non-Annex I countries.

The first message from the report is therefore clear: financial and investment flows will have to be considerably scaled up and redirected towards low-carbon sustainable development, if we are to credibly address the challenge before us.

According to the report of the Secretariat private sector financial flows constitute approximately 86% of current global investment and financial flows 75-80% of all types of climate related finance and investments flow in Annex I countries. Public sector flows constitute 13.5% of global flows. Official development assistance (ODA) accounts for less than 1 % of current investment and financial flows, though this goes up to 6% in least developed countries. These numbers emphasise the crucial role of directing private sector finance in most developed and developing countries towards a low-carbon society.

The second message of the report would therefore seem to be that all sources and vehicles of finance will have to play a part in achieving low-carbon and climate-resilient solutions.

Furthermore, the UNFCCC Secretariat is invited to update its report as soon as possible to elaborate a more ambitious emission reduction scenario that, in 2030, would bring back global greenhouse gas emissions to 1990 levels.

Finance and Investment within the AWG-LCA

The transformation towards a low-carbon and climate-resilient society is a global challenge. All countries will need to contribute to this challenge within and outside the UNFCCC framework with due regard to the principle of common but differentiated responsibilities. The EU notes the call in the Bali Action Plan for, inter alia "means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation" and for "improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources".

The issue of financial flows and investment within the Bali Action Plan is an important opportunity for Parties to realize the ambitious and challenging adaptation and mitigation efforts which are needed to reach the ultimate goal of the Convention. Addressing climate change can and should reinforce the development needs and growth objectives of developing countries.

The EU recognises the urgent need to scale up and channel global investment flows – particularly those of the private sector – towards low-carbon energy technologies, energy efficiency and energy saving measures, and also towards adaptation measures. There is a particular need for assisting developing countries in their efforts to decarbonise their economic growth and to adapt to climate change through support for existing or new financing mechanisms and instruments.

A wide range of actors will be important to engage in delivering these objectives. We therefore welcome the efforts that have been made in various fora – including through a special meeting in Bali – to more closely involve Finance Ministries in climate change related discussions. Similar meetings may be useful in the future, and should be well planned to enable an active and effective input. We also noted the wide range of actors – including the private sector and International Financial Institutions, that the UNFCCC Secretariat engaged with in completing and disseminating the results of their work. This was a constructive and useful process. It will be important for all parties to use these and other experiences to consider, what the various international institutions can contribute to the UNFCCC process based on their comparative advantage.

The EU is committed to do more to mobilise the necessary financial flows and investment in the most coherent, inclusive and effective way as part of a global and comprehensive post-2012 framework, taking into account the limited share of development assistance in financial flows, and the differing share of private investments and public investments across regions and sectors in such flows.

Options for scaling up the role of private and public sector financing instruments and further considering new and innovative sources of public sector finance that are in line with national fiscal policies must be explored. We also know from experience in other sectors that public investment can be used effectively to leverage domestic and international private sector finance. We welcome proposals to ensure we have instruments in place that will create this leveraging effect, and look forward to exploring with other parties proposals that will upscale and provide incentives for upscaling of resources.

A global carbon market is fundamental to assist in driving low-carbon investment and to mobilizing a significant part of the increased financial effort required for the global response to climate change. The role of the carbon market can be enhanced by more ambitious commitments by all Parties. Also, the CDM has shown to be a successful instrument to help countries fulfilling their Kyoto targets and in generating significant additional investment flows to developing countries for climate-friendly projects. The CDM has also been important for involving the private sector, and substantial private financial flows have been leveraged for investments in clean technologies in developing countries, inter alia, innovative mechanisms linked to the carbon market could be important instruments for providing predictable and sustainable financial resources.

There will also be a role for national governments in creating enabling environments at national, regional and international levels, including regulation and market-based incentives, to attract public and private finance for the deployment of low greenhouse-gas-emitting technologies and investment in infrastructure for clean and climate resilient development.

In addition, efficient, expedited and effective means for the allocation of and access to resources will be needed. This requires capacity to uptake finance and efficient instruments to ensure deployment of financial resources in a timely manner. The EU looks forward to exploring with other Parties how resources under the UNFCCC can be channelled in a strategic manner.

It is vital to start in-depth discussions on how to enhance and improve existing mechanisms, and to further considerations on the development of new instruments to deliver adequate, cost-effective and predictable finance and investment flows for Parties that will support mitigation and adaptation actions under a post-2012 agreement.

The analysis within the Investment and Financial Flows paper by the UNFCCC Secretariat has improved our understanding of these issues. We should consider whether further analysis should be undertaken in some key areas to provide a basis for further exploring policy options and implications with a view to accelerating the negotiations under the AWG-LCA.

Review of the experiences of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries

The EU welcomes the report "Review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries" (FCCC/SBI/2007/4) that was prepared by the UNFCCC Secretariat in collaboration with the Multilateral Development Banks.

The EU believes that international funds, multilateral financial institutions and other sources of funding relevant must be ready and adequately equipped to assist developing countries, and in particular poorer and least developed countries, in their current and future climate efforts.

In terms of activities, the future international climate architecture should seek to support developing countries climate change mitigation and adaptation efforts in a cost-effective and targeted manner, taking into account the currently limited share of development assistance in financial flows, and the differing share of private investments and public investments across regions and sectors in such flows.

The EU wishes to contribute to an accelerated and concerted high level effort in support of the UNFCCC and the Bali Action Plan, to develop a coherent and consistent architecture for a post-

2012 agreement. There are indeed many new climate-related financing initiatives already under way. As proposals are put forward for new instruments and funding sources, it will be important to ensure coherence and consistency with existing instruments and sources, not least those of the UNFCCC. It will also be important to ensure participation of all Parties, particularly developing countries, in their development in order to provide for continued improvement of the financial architecture in terms of performance, delivery and governance.

While we believe the setting of a price on carbon, especially through a global carbon market, will be the major financing vehicle for mitigation around the globe also for many of the larger developing countries, there will also be opportunities with respect to catalysing greater international and domestic private sector involvement, including through enhanced enabling environments and the involvement of multilateral financial institutions, the latter in particular being important for supporting the efforts of poorer and least developed countries. To realise this, there is a broad need for strengthening capacities in developing countries, in particular in many poorer developing countries, to assist them in their efforts to actually cope with taking steps to adapt to climate change and to strengthen capacity with a view to enabling them to make use of market-based instruments and other financial instruments and sources.

The EU considers that all countries should seek to benefit from integrating climate change into their overall national strategies at an early stage. Action later will be more expensive. In this vein, the EU welcomes the World Bank’s and the Regional Development Banks’ efforts to integrate climate consideration across their portfolios and to increase their priority to energy efficiency and renewable energy as a starting point. The integration of adaptation and mitigation into development strategies implies adoption of a low-carbon, climate-resilient development trajectory, not a low development trajectory.

Assessment of the funding necessary to assist developing countries in meeting their commitments relating to the GEF replenishment cycle

The EU welcomes the report "An assessment of the funding necessary to assist developing countries in meeting their commitments relating to the Global Environment Facility replenishment cycle" (FCCC/SBI/2007/21) that was prepared by the UNFCCC Secretariat in collaboration with the GEF Secretariat.

The replenishment of funds in the GEF depends on voluntary contributions by donors. The EU remains committed to providing support to the GEF and looks forward to the replenishment negotiations for GEF 5 and expects the outcome to be fully coherent with and in support of the outcome of COP 15 in Copenhagen in order to enable and contribute to a successful implementation of a post-2012 agreement.

We note with appreciation that the report provides detailed information that can potentially provide useful input of the COP to the fifth replenishment negotiations of the GEF Trust Fund.

Effectiveness of the GEF Trust Fund

The Global Environment Facility has effectively performed its role as an operating entity of the financial mechanism of the Convention as was also reported in the third overall performance study of the Global Environment Facility. We also welcome the latest annual report of the Global Environment Facility to the COP as submitted on 18 October 2007 (FCCC/CP/2007/3).

The EU considers the support of GEF to be an important financing instrument, contributing to meeting the overall objective of the UNFCCC. GEF support measures will ultimately have to bring about policy change in the areas of intervention. Achieving greater mainstreaming of GEF activities into national planning frameworks is of utmost importance in this regard.

The EU supports the GEF reform agenda initiated by the recommendations for the fourth replenishment period and welcomes the progress already made as outlined by the CEO of the GEF during her speech at COP 13 in Bali. We are pleased to see progress in a number of areas such as the speeding up of the project cycle as well as enhanced consultations with recipient countries regarding their national priorities.

The fourth review of the GEF

The GEF – as the financial mechanism of the Convention operating under the guidance of the COP – plays a special role. It is important for ensuring continuity and for promoting an integrated approach to environmental challenges.

The EU recalls Decision -/CP.13 on the Fourth review of the financial mechanism. The EU considers this review an integral part of future efforts with respect to a post-2012 climate agreement. Hence the EU believes that it is important to make good use of the review with a view to:

- Assessing progress and examining further how to improve the existing mechanism, including its administrative procedures as well as options to further strengthen synergy and collaboration between GEF implementing agencies to continue to improve the GEF's performance, leading up to and after 2012;

- Examining further how to strengthen the effectiveness of the GEF in contributing to the programmes of the GEF to parties' efforts to address climate change, including providing further guidance as to the operation of the GEF and how the GEF could scale up efforts in relation to a post-2012 agreement;

- Examining further how the existing work of the GEF complements other existing financing instruments and how it may relate to future instruments;

- Examining the role of the GEF as catalyst for low-carbon and climate-resilient finance and investment from other sources including from the private sector, not least with respect to poorer and the least developed countries.

The Expert Group on Technology Transfer (EGTT) is in the process of analysing financing resources and relevant vehicles in supporting technology development and transfer with a view to identifying gaps and barriers to the use of, and the access to these financing resources; we look forward to receiving the report of the EGTT. The results of this report should be considered as an integral part of the review of the financial mechanism.

Recalling Decision -/CP.13 on Development and transfer of technologies under the Subsidiary Body for Implementation; the EU looks forward to receiving and further discussing the strategic programme on technology with the parties.

Finally, the EU notes that there are upcoming reviews of the capacity-building framework of the Convention as well as further considerations on the functioning of the LDCF in continuation of Decision 3/CP.11. The review, the considerations on the functioning of the LDCF and other similar processes, including reviews related to adaptation provided for by Decisions 5/CP.7 and 1/CP.10, should be considered an integral part of a common effort to strengthen, improve and further develop the instruments linked to the Financial Mechanism of the Convention.

PAPER NO. 7: UNITED STATES OF AMERICA

Submission of the United States on Issues Related to the Fourth Review of the Financial Mechanism, Pursuant to Decision 6/CP.13 of the UN Framework Convention on Climate Change

The United States appreciates the opportunity to share views with other Parties on investment and financial flows for addressing climate change in the context of the review of the financial mechanism of the Convention.

We remain firmly committed to enhancing the financing tools needed to address global climate change. Climate-friendly investment is key to enhancing implementation of the Convention, and is appropriately a core issue under the discussion of a post-2012 arrangement on climate change.

The UNFCCC Secretariat has made helpful additions to the body of finance-related information, including with its October 2007 background paper on Investment and Financial Flows.

In reviewing this and related information we believe several factors are notable.

First, as has been widely observed, the private sector will provide the bulk of the needed investments. The background paper stressed that "More of the capital needed for energy projects in developing countries will have to come from private and foreign sources than in the past". We also know that the major economies of the world, including major emerging economies, have an especially strong capacity for generating these investments.

Second, the strength of the local enabling environment for investment is critical. Governance is an essential part of that.

And third, as stated in the background paper, "Domestic savings – the single most important source of capital for investment in infrastructure projects – exceed by a large margin all other sources in total energy-financing requirements".

This point is critical. If we are to ensure that our efforts under the Convention are up-to-date, we must focus on how best to mobilize private capital.

Countries will take different approaches domestically to promote clean investment, reflecting their different circumstances. But all countries have a common responsibility to take actions that will promote investment and financial flows toward clean investment.

As the scale of our efforts grows, we see the growth of various forms of financing, whether bilateral or multilateral, within the Convention or outside it, as a positive development.

Just as different countries have different circumstances with respect to mitigation, so different countries will have different approaches to funding, and we should be encouraging useful actions and avenues.

Given the scale of the effort that is required, public funding will increasingly need to be seen in the context of its effectiveness in stimulating autonomous action and mobilizing private investment, especially in emerging economies.

Thus, we believe any discussion relating to financing must begin with a discussion of the measures that countries can take domestically to promote investment in clean technologies.

We also should explore what actions are clearly consistent with countries' interest in growing their economies – actions that are likely in countries' self-interest irrespective of climate change. These measures are often called sustainable development policies and measures.

There exist a number of examples of actions that can be taken to reduce costs of investment that would contribute to countries' sustainable development. The reduction of tariffs and investment risk reduction tools like loan guarantees are two examples.

We also note that just as the world's economic profile has changed since 1992, so have capital markets. Capital flows are not just North-South now – foreign direct investment and investment flows generally are emanating from all parts of the globe.

Countries outside the OECD are also increasingly providing assistance to less developed countries. We believe that this information should be brought forward and examined. Countries' capabilities are evolving rapidly, and this will impact donor activities as well.

In light of these considerations, we suggest that areas for further work and consideration should include:

- Success stories and lessons learned in improving developing country enabling environments for clean energy technology investments;
- Domestic savings in major emerging economies and other developing countries, and success stories, barriers, and incentives for its mobilization for clean energy technology investment;
- Mobilization of foreign direct investment in clean energy technologies, as well as patterns of FDI.

PAPER NO. 8: URUGUAY

Fourth Review of the Financial Mechanism

Views from Parties on options for scaling up the international financial response to climate change.

Submission from Uruguay

February 11, 2008

Following the invitation contained in document FCCC/SBI/2007/L.34/Add1, paragraph 2, Uruguay would like to present its views regarding options for scaling up the international financial response to climate change, based on national experiences and on available relevant documents.

Firstly, Uruguay understands that the Program of Debt Conversion between Spain and Uruguay is an innovative option for this purpose. This Program allows reducing part of the debt that Uruguay has with Spain, investing such funds in a state owned wind farm project.

Such project was selected by a Committee composed by both countries, being of great interest for the Uruguay because it supports the development of the national strategies of renewable energy and climate change.

One of the requisites of the program is that the equipment to be purchased and installed in this project has to be made in Spain. Moreover, Spain will purchase the certified emission reductions generated by this project that is being developed in the framework of the Clean Development Mechanism of the Kyoto Protocol.

Secondly, Uruguay believes that another interesting initiative to improve the international financial response to climate change is the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the first regional disaster insurance facility in the world. This experience may serve as a pilot program that could be extended to other regions, such as the South Cone, to manage country risk financing for hazards related to climate change. In this sense it will be necessary to exchange information and share experiences of the Facility so as to encourage the involvement of insurance sector in the region.

Lastly, Uruguay considers that another mechanism to increase financial flows for climate change is related to the Multilateral Loans that developing countries receive for infrastructure projects for example. It may be a requisite for acceding to these loans that a percentage of them be used for adaptation to climate change activities, thus it will imply that the Multilateral Financial Institutions include within their policies issues related to adaptation to climate change.

PAPER NO. 9: UZBEKISTAN

Views of the Republic of Uzbekistan on forth review of the financial mechanism

(a) View on the Technical Paper of the Experience of International Funds, Multilateral Financial Institutions and other Sources of Funding relevant to the Current and Future Investment and Financial Needs of Developing Countries

The developing countries currently account for only 20–25 per cent of global investments, but considering their rapid economic growth they will require by 2030 a large amount of investment – about USD 65 billion for mitigation and up to USD 67 billions for adaptation to climate change. Therefore, the analysis of current and future investments is extremely important. According to the Technical Paper, the developing countries receive the external investment mainly from private sector. The multilateral and bilateral sources are much smaller, but are also very important for developing countries, typically being used by the governments to finance economic and social infrastructure. The international financial institutions could play a key role in mobilizing adequate resources from public and private sources to support environment-friendly and low-carbon investments in developing countries. Among them the World Bank (WB) has the largest resources, providing loans and grants for almost the same amount as Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD) and Inter-American Development Bank (IDB) altogether. All the banks recognize the importance of supporting the mitigation and adaptation.

The interest of Uzbekistan in this Technical Paper was focused mainly on the work of the WB, the ADB and the EBRD as the major players of our foreign investment market.

The World Bank’s climate change strategy is a part of its overall Environmental Strategy. The WB helps developing countries identify and implement “win–win” actions in economic, environment and climate change areas, supports them in mitigation of GHG emissions, reduction of vulnerability and adaptation to climate change and assists in capacity-building. The WB is working together with the ADB and EBRD to identify areas for collaboration in the climate change area focused on assessment of GHG emissions and sharing experiences on programs to be scaled up in sectors of energy, forestry and transportation. The mitigation actions are focused on the areas of renewable energy for rural areas, energy efficiency improvement in the transport sector, forest regeneration and capacity building for the CDM projects. The areas of adaptation to climate change are the vulnerability assessment and awareness-raising activities in the sectors of water, agriculture, forestry and coastal zones. In Uzbekistan the work of the WB concerns mainly the rural areas. The main financing instruments of the WB are IBRD/IDA lending, GEF and donor grants and carbon financing. The Bank considers the carbon financing as a major instrument for the large-scale replication and market expansion of low-carbon emission technologies. However, the WB has broadened its activity on mitigation of climate change in Uzbekistan only recently, participating in the CDM projects and so far have invested to about 16 % of the prepared projects proposals on CDM, which seems rather small comparing to existing potential.

The ADB is focused on reducing poverty and improving the quality of life in developing countries in Asia-Pacific region. Its principal tools are loans and technical assistance to governments for specific development projects and programs, as well as debt financing to private entities. The ADB’s private-sector operations provide direct assistance to private companies and financial institutions by direct financing and risk mitigation, in most cases without government guarantee. Its Clean Energy and Environment Program includes Energy Efficiency Initiative and Carbon Market Initiative components aiming to expand clean energy development and providing support to CDM project developers, respectively. The mitigation actions of the ADB include technical support in accessing additional financial resources for CDM-eligible projects, utilization of the

carbon market options for the development of clean energy projects, addressing barriers to renewable energy and energy efficiency, and development of government capacity and capability. The ADB's activity on climate change adaptation is the regional, sub-regional and national cooperation to identify adaptation approaches and measures, address the problems of land degradation and analyze the impact of climate change on natural resources productivity. The investments of ADB in the mitigation projects of Uzbekistan to date are limited to implementation of 3 projects, constituting only 2.4 % of the financing required for the implementation of all prepared project proposals.
The EBRD was established to support a new private sector in a democratic environment for the Central and East European countries and newly independent states of the former Soviet Union. It also supports renewable energy and energy efficiency projects in the form of carbon financing, renewable energy funds and funding through energy service companies. Its new business strategy for 2010 is aimed at tackling climate change through energy and environmental policies. The climate change mitigation activities of the EBRD are investment into clean energy sources, accumulation of carbon credits and facilitation of the carbon credits purchase.

In general we can assume that all the development banks have paid higher attention to in the mitigation activity and have recently increased funding for energy efficiency and renewable energy. As for adaptation it seems to have the outcomes in the distant future because the greater part of lending goes to long-term infrastructure projects. Thus, according to the analysis of trends in lending within sectors for the decade of 1995-2005, funding for the sector of infrastructure vary in the range of 42 to 61 % of the total, while environmental protection funding do in the range of 1 to 7 % with tendency to decreasing, urban and rural development - in the range of 1 to 4 %, funds for water - in the range of 9 to 15 % also with tendency to decreasing. About half of total financing is relevant to adaptation, but only a small portion of it addresses immediately adaptation projects. Most of the programs and projects on adaptation so far have focused on analytical work, capacity-building and impact assessments, but not practical implementation of adaptation measures. The development banks have also started various adaptation initiatives to assess vulnerability and include the climate change agenda in their assistance strategies. However, the work of the development banks in climate change adaptation is mostly at the pilot stage. Uzbekistan as a country that urgently needs an adaptation to the adverse effects of climate change is waiting the further development of these activities with a great hope.

(b) Views on the Assessment of the Funding Necessary to Assist Developing Countries in Meeting their Commitments to the Global Environment Facilities Replenishment Cycle

The Global Environmental Facility (GEF) is entrusted with the operation of the financial mechanism of the Convention, subject to review every four years. The considered document was prepared for the COP-13 for its fourth review of the financial mechanism, which included an assessment of the funds necessary to assist developing countries.

This document states that the GEF-financed projects are typically co-financed by other sources. Co-financing achieves USD 4.2 per dollar of GEF grant, which shows the important role of the financial mechanism as the catalyst for attracting additional finance and investments for adaptation and mitigation activities.

According to the document, the GEF has been currently focusing on the creation of enabling environment, testing new and innovative approaches, and facilitating private investments, including carbon financing, which approach received positive feedback from recipient countries. The focus areas are adaptation, mitigation, development and transfer of technologies, preparation of national communications, capacity-building, public awareness and activities addressing the impacts of response measures.

The document has estimated the level of resources required by developing countries in meeting their commitments under the Convention over the next GEF replenishment cycle.

Thus, on mitigation, it concludes that about USD 65 billion will be needed in developing countries in 2030. The substantial part of the required investment and financial flows could be covered by the current sources. Additional external funding for climate change mitigation will be needed particularly for sectors in developing countries that depend on government investment and financial flows. If the available funding of the Convention remains at its current level, it will not be sufficient to address the future financial flows estimated for mitigation. It was also concluded that there will be a need to scale up GEF resources to support mitigation in order to address climate change.

On adaptation, the non-Annex I Parties will require USD 28 - 67 billion of the additional investment and financial flows to adapt to climate change by 2030. While private sources of funding can be expected to cover a portion of the adaptation costs in some sectors, additional governmental funding will be needed for adaptation measures, especially for sectors and countries that are already highly dependent on external support. The Adaptation Fund under the Kyoto Protocol may have the potential to cover part of the needs for financial flows, but obviously, the new sources of funding will be required.

The required financing of development and transfer of technology has the status of ongoing discussion. According to different sources it can reach USD 24-36 billion annually (IEA) or USD 33 billion annually (Stern Review).

As for preparation of national communication, the required amount has not been yet estimated. The cost of funding third and subsequent national communications will depend largely on the guidelines for preparing national communications that Parties have to discuss later.

The activities on capacity-building, public awareness and outreach, as well as addressing the impact of response measure implementation have not been quantitatively estimated. Nevertheless, the document has summarized the planned activities and needs of developing countries, thus presenting the scope of work, which financing is a subject of further considerations.

(c) The report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change

Like the *Technical Paper on Experience of International Funds* (point (a)) and the *Assessment of the Findings* (point (b)), the current Report was based on information from the background paper prepared by the UNFCCC secretariat "*Investment and Finance Flows to address Climate Change*", which provides an assessment of the investment needed in 2030 to meet worldwide mitigation and adaptation requirements under different scenarios of social and economic development. Therefore, the key findings of the Report on mitigation and adaptation are more or less similar to those described in the points (a) and (b). However, the characteristic property of the Report is providing for more detailed figures of financing for specific sectors (energy, industry, buildings, transportation, waste, agriculture, forestry, R&D) and the potential sources of financing (private-sector, GEF, international carbon markets, Adaptation Fund, bilateral and multilateral assistance).

(d) Options for scaling up the international financial response to climate change, based on national experience and on available relevant documents

The Republic of Uzbekistan appreciates efforts of GEF in his capacity of the financial mechanism of the UNFCCC. However, we have several recommendations regarding implementation of these functions:

- Bringing to the full compliance the decisions of the COP regarding its financial mechanism and the rules and regulations of the GEF, so that the developing countries can get faster access to funding of the relevant activities. In case of Uzbekistan, the approval of funding for the preparation of the SNC was pending for about a year owing to the proper guidelines were not put in force. We hope that during preparation and implementation of the follow-up activities, like 3rd NC and further we will not face such obstacles.

- Improving the guidelines and expedited procedures for the Strategic Priority on Adaptation (SPA) Fund for supporting the developing countries in implementation their adaptation activities.
- Taking into account differences in the circumstances of different developing countries when considering the terms and regulations for financing of third and subsequent national communications during the fifth replenishment phase of the GEF fund. The differentiated approach would be preferable, rather than establishing the same amount (like USD 405,000 for the SNC) for all developing countries.

As for improving the international financial response to climate change in the global scale, our view is presented bellow.

An assessment of investment and financial flows has shown that the financial mechanism of the Convention is not equal to the amount of financial assistance required to support the effective response measures. The results of analysis have revealed the necessity in additional financial resources and in changing the structure of investment flows.

There is a need to consider the matter of establishing new mechanisms with participation of financial institutions and private sector. The drastic alterations will be required mainly in the spheres of energy productions and consumption.

To adopt preventive measures on climate change the global investment and financial flows have to amount to UDS 200 - 210 billion.

The main reduction of emission can be achieved at the expense of increased energy efficiency (that is the most promising way for GHG emission reduction in the short-term prospective); switch from fossil fuels to renewable energy sources, nuclear energy and hydro-power; full-scale introduction of CCS technologies.

The current and future decisions adopting unsustainable or inefficient technologies and infrastructures that are unable for future improvement and re-equipment would bring to locking-up of capitals and investments, which would, in turn, limit the range of future options on combating climate change.

The success of the activity on climate change prevention depends on a wide range of enabling mechanisms, such as fiscal approach and regulative measures aimed to facilitate cost reduction, to create the further incentives for cleaner development and support the mobilization of required investments. In our opinion, the most efficient fiscal approach and regulative measures should consider the economic situation of the relevant countries and depend on international framework to a lesser degree than the carbon market mechanisms.

In this regard, the most promising measures to increase the international financial response to climate change, in our viewpoint, are the followings:

- further development of carbon markets;
- increased investments to research and development (R&D) of innovative technologies;
- attraction of investment and financial flows of private sector;
- in-country investments to measures on prevention of and adaptation to climate change, as well as political decisions adopting standards of energy efficiency.

The growth of carbon markets is considered as a powerful mean to create positive incentives for accepting voluntary measures by the developing countries and enabling the developed countries to commit their obligation on emission reduction in an cost-effective manner.

To ensure the increased use of carbon markets there is a need in creating mechanisms additional to the existing CDM, JI and emission trading projects. Such new mechanisms should overstep the limits of the project-based approach and be able to bring the hosting countries the tangible benefits from the viewpoint of sustainable development.

In our opinion it would be expedient to provide substantial investments to the technology development on its pre-commercial phases, especially on the phases of scientific research, development and demonstration. Even though the carbon market is an important tool of involvement of business circles and enabling investments it is unlikely that the only carbon market will create enough incentives for the required investments. This is caused by the fact that commercial investors will not get an adequate return. Therefore, the government will have to share the financial risks relevant to the introduction of new technologies to the markets. The technologies addressing solely emission reduction are not so much attractive for the pioneers. The additional measures are required for encouraging such investments. National and international policy might substantially influence the return of investments in the innovation technologies. The special attention should be paid to the reorganization of energy sector. As for the innovation technologies, the proposals from development countries include an increase of investments in the clearly defined R&D programs, dissemination of the experience of successful partnership between state and private sectors, as well as in the targeted activity on capacity building in developing countries.

The additional investment and financial flows required by 2030 for adaptation to climate change amount to several tens of USD billion. It is anticipated that disbursement of this imposing amount would enable avoiding the more imposing large-scale consequences of climate change.

The above mentioned amount is considerably higher than the funds currently available in the framework of the Convention and its Kyoto Protocol, but is rather reasonable comparing to the projected global GDP (0.3 to 0.5 %) and the projected global investments (1.1 to 1.7%) in 2030.

When considering the tools for increasing investment and financial flows for climate change response it is worth paying attention to the role of investments from the private sector, as it constitutes the biggest share (86 %) of the total investments. However, there is a number of factors limiting the private sector investments. Among them are technology-related incremental costs; behavioral barriers even in case of economically sound technologies; a need in development of the long-term policy for carbon markets enabling the private investors clearly comprehend their perspectives; a need in development of proper legislative base at the national level.

The intergovernmental process can stimulate and expand the opportunities for investments playing the intermediary role in the activity on reducing technology-related incremental costs, decreasing risks of investors and ensuring adoption of necessary obligations on the market expansion by the relevant governments. The market mechanisms can provide for an achievement of cost-benefit emission reduction and facilitate development of the developing countries.

There is a need in establishing new institutions addressing the planned tasks, first of all rendering assistance in stabilization of the carbon prices, which is necessary to support the required level of investments. The initiators at the national level are also important for their complementary efforts at the international level.

With a view to facilitating financial replenishment of losses caused by climate change consequences the new financial products such as bonded debts for the case of disaster, as well as micro financing would be expedient.

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