

18 September 2013

English only

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Conference of the Parties

Nineteenth session

Warsaw, 11–22 November 2013

Item 11(e) of the provisional agenda

Matters relating to finance

Report of the Global Environment Facility to the Conference of the Parties and guidance to the Global Environment Facility

Views and recommendations from Parties on elements to be taken into account in developing guidance to the Global Environment Facility

Submissions from Parties

1. The Conference of the Parties (COP), by decision 9/CP.18, paragraph 7, invited Parties to submit to the secretariat annually, and no later than 10 weeks prior to a session of the COP, their views and recommendations, in writing, on the elements to be taken into account in developing guidance to the operating entities of the financial mechanism of the Convention.
2. The COP requested the secretariat to compile the submissions received into a miscellaneous document for consideration by Parties in developing guidance to the operating entities of the financial mechanism of the Convention.
3. The secretariat has received five such submissions from Parties as at 16 September 2013. 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

* 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.

¹ Also available at <<https://unfccc.int/5916.php>>.

FCCC/CP/2013/MISC.4

GE.13-63052

Please recycle 

Contents

	<i>Page</i>
1. Bangladesh, Belize, Chad, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Dominica, Dominican Republic, Fiji, Gabon, Guyana, Honduras, Kenya, Liberia, Nigeria, Panama, Papua New Guinea, Sierra Leone and Uganda (Submission received 16 September 2013).....	3
2. Brazil (Submission received 2 September 2013).....	9
3. Bolivia (Plurinational State of) (Submission received 3 September 2013).....	11
4. Lithuania and the European Commission on behalf of the European Union and its member States* (Submission received 10 September 2013).....	13
5. Vanuatu (Submission received 3 September 2013).....	15

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

Paper no. 1: Bangladesh, Belize, Chad, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Dominica, Dominican Republic, Fiji, Gabon, Guyana, Honduras, Kenya, Liberia, Nigeria, Panama, Papua New Guinea, Sierra Leone and Uganda

Submission of Views

by

Bangladesh, Belize, Chad, Cote d'Ivoire, Democratic Republic of Congo, Dominica, Dominican Republic, Fiji, Gabon, Guyana, Honduras, Kenya, Liberia, Nigeria, Panama, Papua New Guinea, Republic of Congo, Sierra Leone, Uganda

on

Draft guidance to the operating entities of the financial mechanism

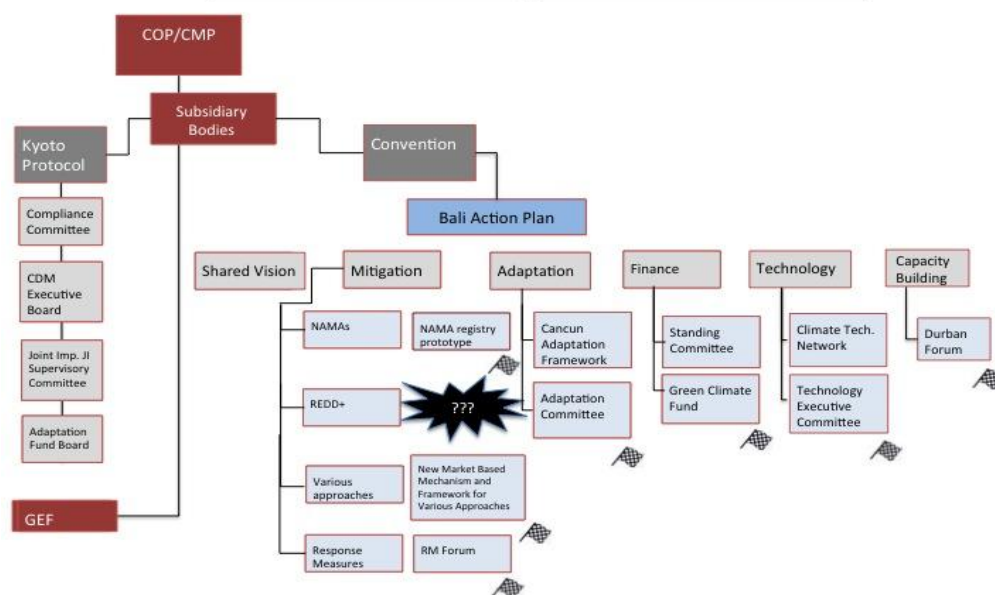
30 August 2013

1. The Conference of the Parties (COP), at its 17th session, agreed on the functions and activities of the Standing Committee on Finance (SCF). One of the activities of the SCF is to provide to the COP draft guidance for the operating entities of the financial mechanism of the Convention, with a view to improving the consistency and practicality of such guidance, taking into account the annual reports of the operating entities as well as submissions from Parties. At this point in time, the two operating entities that this draft guidance refers to are the Global Environment Facility (GEF) and the Green Climate Fund (GCF).
2. In its report to COP 18 the SCF stated that, inter alia, beginning in 2013, it will assume the role of providing to the COP draft guidance for the operating entities of the financial mechanism as per decision 2/CP.17, paragraph 121(c). Furthermore, it stated that it will prepare draft guidance to the COP based on, inter alia, the annual reports submitted by the operating entities and submissions of views from Parties on elements to be taken into account in developing guidance for the operating entities for recommendation to COP 19 and at subsequent sessions.
3. In accordance with the background paper on procedural aspects of the provision of draft guidance to the operating entities of the financial mechanism as adopted by the SCF at its fourth meeting (document SCF/2013/4/6), Parties are requested to provide views and recommendations in writing on the elements to be taken into account in developing guidance to the operating entities by 2 September 2013.
4. For this purpose the Coalition for Rainforest Nations (CfRN or Coalition) considered issues related to the above and prepared this submission of views. Furthermore, this submission includes concepts and draft decision texts prepared by CfRN during the climate change conference held in Bonn from 3 to 14 June 2013.
5. The submission of views made the Coalition on 24 April 2013 on matters referred to in paragraphs 34 and 35 of decision 1/CP.18, including potential functions, modalities and procedures of the new market-based mechanism should be recalled.
6. The Bali Action Plan calls for policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+). Since then, the Coalition has consistently advocated, and most recently in its submissions of views of 29 February 2012 on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16,

paragraphs 68–70 and 72, as requested by COP17, that financial resources for the full implementation of results-based actions referred to in paragraph 70 of decision 1/CP.16, accompanied by an appropriate, robust and transparent monitoring, reporting and verification process at the national level, should come from a flexible combination of public and private sources, including market-based sources that are also monitored, reported and verified.

7. Given the high estimated mitigation potential in the forestry sector in 2020 in developing countries, quantified by both the Technical Paper on ‘Investment and financial flows to address climate change: an update’ FCCC/TP/2008/7 and the UNEP ‘Emissions Gap 2012’ report as approximately 4.2 Gt CO₂ annually, REDD+ could play a fundamental role in addressing the mitigation ambition gap and more generally to fighting climate change in the short and long term.
8. Diverse options are available for the creation of new institutional structure and funds to finance enhanced action on REDD+ in developing countries. This includes expanding market-based mechanisms and new funds to deliver new and additional public finance.
9. The Coalition agrees with the conclusions of the Technical Paper on ‘Investment and financial flows to address climate change: an update’ FCCC/TP/2008/7, namely with the need for institutional arrangements that allows for an overall financial framework under the Convention to mobilize, manage and deliver enhanced financial flows and resources for adaptation, mitigation and technology cooperation, by:
 - (a) ensuring the efficient and effective management and supervision of the various investment mechanisms and multiple funds;
 - (b) ensuring coordination and coherence with other bilateral and multilateral financial flows;
 - (c) enabling the engagement of the private sector with a view to leveraging additional resources for climate-friendly and climate-resilient investments.
10. While we note that Parties have already agreed on many institutional arrangements and governance structures for most other elements within the Bali Action Plan and beyond, we recognize that REDD+ is still lacking coordinated and coherent institutional arrangements under the Convention. REDD+ as a founding and interlinked element of the Bali Action Plan effectively ended in Doha at COP-18 along with the conclusion of the AWG-LCA *without an adequate and effective institutional structure and governance framework to carry forward under the UNFCCC*, as highlighted in the chart below.

Convention and KP governance structure



11. Within the process of addressing the matters outlined in paragraph 34 of decision 1/CP.18¹ and the request to consider existing institutional arrangements or potential governance alternatives including a body, a board or a committee, as reflected in the submissions of views by the Coalition as referred to in paragraph 5 above and in the report of the workshop held on 10 June 2013 at the thirty-eighth sessions of the subsidiary bodies on the issues relating to ways and means to transfer payments for results-based actions, the Coalition is advocating the establishment of a Committee/Board as the overall advisory body to the Conference of the Parties to improve coherence and coordination in the delivery of financial and technical support for the implementation of the activities referred to in decision 1/CP.16, paragraphs 70 and 73 under the Convention.
12. The role of this body should be to oversee, address and facilitate the implementation of REDD+ activities in developing countries, including the provision of financial support, capacity development and technology.
13. Its main functions should be to provide guidance and recommendations to the subsidiary bodies and mechanisms, coordinate cross-cutting issues, and coordinate multilateral funding bodies and bilateral financial cooperation.
14. The Coalition believes that a link should be established by COP19 between the body/committee referred to in paragraph 11 above and the guidance to be provided to the operating entities of the Convention.
15. The Coalition includes a vast majority rainforest countries covering the three largest tropical forest areas in the world and other important nations. We believe that adequate and sustainable financial resources to implement REDD+ should be urgently provided to rainforest countries. To fulfill this aim we urge all Parties to support the following two draft decisions attached to this submission:
 - Joint SBI/SBSTA process on institutional arrangements for REDD+ (Annex I)
 - Draft guidance to the operating entities of the financial mechanism (Annex II)

¹ 'The need to improve the coordination of support for the implementation of the activities referred to in decision 1/CP.16, paragraph 70, and to provide adequate and predictable support, including financial resources and technical and technological support, to developing country Parties for implementation of those activities', paragraph 34 of decision 1/CP.18.

**Joint SBI/SBSTA process on institutional arrangements for REDD+:
draft decision**

15 June 2013

Recalling Article 4.1.c of the United Nations Framework Convention on Climate Change,

Recalling paragraphs 34 to 38 of decision 1/CP.18,

Recalling paragraph 68 of decision 2/CP.17,

Recalling paragraph 35 of decision of Annex to decision 3/CP.17,

Recalling the findings of the Technical Paper on ‘Investment and financial flows to address climate change: an update’ FCCC/TP/2008/7 released by the secretariat on 26 November 2008, in particular its paragraph 60,

Welcomes the work initiated jointly by the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation, at their thirty-eighth sessions, with the aim to address the the need to improve the coordination of support for the implementation of the activities referred to in decision 1/CP.16, paragraph 70, and to provide adequate and predictable support, including financial resources and technical and technological support, to developing country Parties for implementation of those activities, and consider existing institutional arrangements or potential governance alternatives including a body, a board or a committee;

1. *Notes* the outcomes of the process of addressing the matters outlined in paragraph 34 of decision 1/CP.18, and the request to consider existing institutional arrangements or potential governance alternatives including a body, a board or a committee, as reflected in submissions from Parties and the report of the workshop held on 10 June 2013 at the thirty-eighth sessions of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation on the issues relating to ways and means to transfer payments for results-based actions;

2. *Recognizes* the need to ensure scaled up adequate and predictable, finance for the promotion of the activities referred to in decision 1/CP.16, paragraph 70;

3. *Further recognizes* the need for effective and coordinated international governance on the implementation of the activities referred to in decision 1/CP.16, paragraph 70, and the challenges of ensuring access, disbursement and equitable distribution of financial resources and technical and technological support to developing country Parties for the implementation of the activities referred to in decision 1/CP.16, paragraph 70;

4. *Decides* to hereby establish a Committee/Board as the overall advisory body to the Conference of the Parties to improve coherence and coordination in the delivery of financial and technical support for the implementation of the activities referred to in decision 1/CP.16, paragraphs 70 and 73 under the Convention, inter alia, through the following functions:

- a) Provide guidance on matters related with reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries, where needed, to the Conference of the Parties, the Subsidiary Bodies, the operating entities of the financial mechanisms of the Convention and other relevant institutions under the Convention;
- b) Provide guidance and advice on matters related with reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries to multilateral initiatives, bilateral efforts, civil society, rural communities, the private sector, etc.;
- c) Receive, coordinate, and manage requests for support and assistance by developing countries to

- implement the activities referred to in decision 1/CP.16, paragraph 70, independently of the source of funding and the financial mechanism which will disburse the funding;
- d) Coordinate and organize the result of the different evaluation processes of plans, actions, reporting, results and verification for the activities referred to in decision 1/CP.16, paragraph 70;
 - e) Facilitate the mobilization and scaling-up of finance, technical support and capacity to developing country Parties for the implementation of the activities referred to in decision 1/CP.16, paragraph 70;
 - f) Ensure transparency and equitable distribution of finance by monitoring the efficiency, effectiveness, distribution and impact of support provided and to be provided by multilateral and [bilateral] initiatives for the implementation of the activities referred to in decision 1/CP.16, paragraph 70;
 - g) Address technical and capacity building needs of developing countries implementing the activities referred to in decision 1/CP.16, paragraph 70;
 - h) measurement, reporting and verification of support provided to developing country Parties;

5. *Affirms* that the Committee/Board referred to in paragraph 4 above shall be the overall advisory body to the Conference of the Parties on matters related with reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries and be based on a fair and balanced representation of developed country Parties and developing country Parties undertaking and/or supporting the activities referred to in decision 1/CP.16, paragraph 70;

6. *Invites* the operating entities of the financial mechanisms of the Convention to provide finance for the activities by developing country Parties referred to in decision 1/CP.16, paragraph 70 in accordance with relevant decisions of the Conference of the Parties on the matter and the guidance provided by the REDD+ board/committee;

7. *Invites* the Committee/Board referred to in paragraph 4 above to exchange information with relevant Convention bodies, including the Standing Committee of the Green Climate Fund, on means to incentivize the implementation of the activities referred to in decision 1/CP.16, paragraph 70, including finance, technology, and capacity-building, with a view to identifying opportunities and further actions for consideration by the Conference of the Parties;

8. *Invites* Parties to submit to the secretariat, by [XX], views on the composition of, and modalities and procedures for, the Committee/Board referred to in paragraph 4 above and these to be compiled into a miscellaneous document, to be made available by [XX], as basis of a synthesis report to be prepared by the secretariat by [XX];

9. *Requests* the Subsidiary Body for Implementation, at its fortieth session, to continue the process initiated in accordance with paragraph 25 of decision 1/CP.18 with the aim of initiating work on issues referred in paragraphs 7 above and to elaborate the composition of, and modalities and procedures for the Committee/Board referred to in paragraph 4 above for adoption by the Conference of the Parties at its twentieth session.

Annex II

Draft guidance to the operating entities of the financial mechanism: Draft decision

The Conference of the Parties,

Recalling Article 4.1.c of the United Nations Framework Convention on Climate Change,

Recalling decision 1/CP.11,

Recalling paragraphs 34 to 38 of decision 1/CP.18,

Recalling paragraph 68 of decision 2/CP.17,

Recalling paragraph 35 of decision of Annex to decision 3/CP.17,

Having considered the findings of the Technical Paper on ‘Investment and financial flows to address climate change: an update’ FCCC/TP/2008/7 released by the secretariat on 26 November 2008, in particular its paragraph 60,

1. *Decides* that the Green Climate Fund should provide and enhance adequate support for the implementation of the activities referred to in decision 1/CP.16, paragraph 70;
2. *Also decides* that the body referred to in decision [xx], paragraph [xx] should inform the Standing Committee/Green Climate Fund on improving the coherency and coordination in the delivery of support provided in accordance with paragraph 1 above;
3. *Also decides* that for forestry activities relevant to climate change undertaken outside the framework of the financial mechanism, consistency should be sought and maintained with 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 Article 4.1.c and decision 1/CP.16, paragraph 70; this should not introduce new forms of conditions.

Paper no. 2: Brazil
Standing Committee on Finance
COP draft guidance for the operating entities of the financial mechanism of the Convention
Submission by Brazil

The Government of Brazil welcomes the opportunity to provide its views on the provision of draft guidance to the operating entities of the financial mechanism, as per decision 2/CP.17, paragraph 121(c), for recommendation to COP 19.

This submission refers to the guidance to entities of the financial mechanism regarding the activities and elements referred to in paragraphs 70 and 71 of decision 1/CP.16 (REDD+)¹, including results-based payments. This submission is focused on guidance to the Green Climate Fund, but it does not preclude the Global Environment Facility (GEF).

This submission should be considered in conjunction with the submission by Brazil on paragraphs 34 and 35 of decision 1/CP.18 (FCCC/SB/2013/MISC.3/Add.1), as well as with the submission to the COP work programme on results-based payments and REDD+ finance, from August 20th 2013.

As the main global fund for climate change finance, the Green Climate Fund (GCF) is expected to assume a central role in the architecture for REDD+ financing and results-based payments. The provision of guidance to the GCF in COP-19, in conjunction with the outcome of the COP work programme on results-based payments and REDD+ finance, offer a clear opportunity to send a strong signal to the international community regarding REDD+.

In order to enable and support enhanced action on REDD+, the GCF should allocate new, adequate and additional financial resources, on a periodical basis. Resources allocated to REDD+ should measure up to an adequate amount as to allow the GCF to become the main multilateral source for REDD+ financing and results-based payments, establishing an international benchmark.

In the view of Brazil, GCF could enable and support enhanced action on REDD+ through non-marked based approach, including *ex ante* financing and *ex post* results-based payments, on a periodic basis, as detailed below.

- a) *Ex ante* financing to developing countries for the development and implementation of the elements described in paragraph 71 and the activities listed in paragraph 70 of decision 1/CP.16;
- b) *Ex ante* financing to international and regional organizations, other REDD+ countries, civil society and the private sector for the implementation in developing countries of initiatives that contribute to the activities listed in paragraph 70 of decision 1/CP.16, subject to the no-objection procedure through national designated authorities referred to in paragraph 7 of decision 3/CP.17²;
- c) *Ex post* payments of grants to developing countries to be disbursed according to their mitigation results that have been measured, reported and verified following the modalities and procedures agreed by decision --/CP.19, based on national forest monitoring systems, reference emission levels and/or forest reference levels, consistent with National Communications and Biennial Update Reports.

The objective of *ex ante* financing is to allow all developing countries to be eligible to receive *ex post* payments for mitigation results. *Ex ante* financing is project based. The main aspect of REDD+ is, however, its *ex post* nature, through which payments are to be done upon achievement of mitigation results, on a national scale (or subnational, on an interim basis).

¹ Reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

² Not to be mistaken with the national REDD+ entity proposed in the submission to the COP work programme on results-based payments and REDD+ finance).

When disbursing resources to REDD+, the GCF should, therefore, use a balanced approach between *ex ante* financing and *ex post* payments, with a view to allow an increasing number of developing countries to be eligible to receive results-based payments, while giving them the proper incentives to do so. In this regard, financing of the development and implementation of the elements described in paragraph 71 of decision 1/CP.16 should be given due priority in *ex ante* financing.

As agreed in decision 12/CP.17, developing countries' results in implementing REDD+ activities will be measured against forest reference emission levels and/or forest reference levels expressed in tonnes of carbon dioxide equivalent per year. Reference emission levels and forest reference levels are to be assessed according to the modalities and procedures agreed in decision --/CP.19 (REL/RL decision, negotiation to be concluded in SBSTA 39).

Results are to be measured, reported and verified following the modalities and procedures agreed in decision --/CP.19 (MRV decision, negotiation to be concluded in SBSTA 39), based on their national monitoring systems (decision --/CP.19, negotiation concluded in SBSTA38).

When disbursing grants for results based payments, the GCF should follow the ways and means agreed by the COP in decision --/CP.19 (outcome of the COP work programme on results-based payments), taking into consideration as well the outcomes of the joint process SBI/SBSTA on coordination of support and other relevant decisions.

As for modalities and procedures for *ex post* payments, the GCF Board could consider establishing periodical calls for applications of the funds previously allocated. Funds would be distributed among applicant countries already implementing results based actions, using a fixed value per ton of CO₂ eq. When disbursing grants for results based payments, the GCF should take into account the need to ensure an equitable distribution of the available resources among applicant developing countries, besides the amount of reductions per value.

It is worth noting that the governing instrument already recognizes REDD+ among the mitigation activities to be financed by the GCF. Therefore, REDD+ should be financed under the mitigation window, in an integrated approach with adaptation, as soon as the GCF is fully operational.

Paper no. 3: Bolivia (Plurinational State of)

Standing Committee on Finance

COP draft guidance for the operating entities of the financial mechanism of the Convention for enhance action on non-market-based approaches related to reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries

Forests and Joint Mitigation and Adaptation (JMA)

Submission by the Plurinational State of Bolivia August 30, 2013

The Government of the Plurinational State of Bolivia presents its views on the provision of draft guidance to the operating entities of the financial mechanism, as per decision 2/CP.17, paragraph 121(c), and for recommendation to COP19.

This submission refers to guidance for financing non-market based approaches as referred to in paragraph 67 of decision 2/CP17 that decided the following: “67. *Notes that non-market-based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests as a non-market alternative that supports and strengthens governance, the application of safeguards as referred to in decision 1/CP.16, appendix I, paragraph 2(c–e), and the multiple functions of forests, could be developed*”;

Also, the decision FCCC/SBSTA/2013/L.12 of June 2013 that establishes in the paragraph 14 the following: “14. *The SBSTA noted that non-market-based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests, as referred to in decision 2/CP.17, paragraph 67, are important to support the implementation of the activities referred to in decision 1/CP.16, paragraph 70*”.

Therefore, in order to enable and support results-based payments and finance for deforestation and forest degradation and sustainable management of forests in a context of non-market-based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests, the Green Climate Fund (GCF) must allocate new, adequate and additional public financial resources for those approaches.

Joint Mitigation and Adaptation approaches (JMA) are based on sustained public financing according to the performance of results-based actions during a long period of time, taking into account joint mitigation and adaptation indicators, considering a composite of ex ante finance (variable tranches) and ex post finance(fixed tranches). These indicators are related to the achievement of multiple benefits of forests (including carbon, non-carbon benefits, and forestry governance) as follows:

- **Variable tranches** are established as a progressive sequence of ex ante finance, or disbursements throughout an agreed period of time, in order to give countries the necessary means and conditions to achieve a bundle of indicators with respect to mitigation and/or adaptation. With the exception of the first disbursement, which is a compulsory compensation to the countries, later disbursements are undertaken in accordance with the performance of indicators as achieved in the previous period.
- **Fixed tranches** are established in order to disburse progressively fixed amount of finance through ex-post finance under the scheme of “all or nothing” during an agreed period of time. If all related outcomes established in the fixed tranches are achieved the finance can be disbursed, otherwise is not disbursed at all.

The Plurinational State of Bolivia proposes two modalities of financing considering both variables tranches and fixed tranches, as explained below.

First modality: one single tranche for financing mitigation and adaptation plus an additional tranche for financing the strengthening of forestry governance

This first modality of financing implies articulating the achievement of joint mitigation and adaptation indicators in one tranche of financing (variable tranches), and creating an additional tranche of finance for forestry governance (fixed tranches), which creates the necessary conditions to effectively achieve the former. The proposed scheme for this modality is the following:

- *Variable tranches* are related to a bundle of joint mitigation and adaptation indicators achieved by a given country, such as the following: reduction of unplanned and illegal deforestation; strengthening the livelihoods of local peoples; development of sustainable productive systems, management of environmental functions (reduction of CO₂, water provision, among others).
- *Fixed tranches* are related to the establishment at the country level of conditions of forestry governance for climate change, such as forestry decentralization and clear tenure property rights.

For example, a non-market commitment for financing mitigation and adaptation in the first modality, encompassing a hypothetical total amount of financing of 2.000 MM dollars in a 20 years period for a given developing world country, could be the following:

- *Fixed tranches*: A total of 400 MM is disbursed if conditions of general governance are achieved in years 3 and 8.
- *Variable tranches*: A total of 1.600 MM is disbursed through ex ante financing at the beginning of year 1, 6, 11 and 16.

Second modality: two parallel tranches for financing mitigation and adaptation as interlinked outcomes

This second modality of financing implies separating in two independent but articulated tranches of financing the outcomes of adaptation or non-carbon benefits to be located in one tranche (variable tranches), from those of mitigation or reduction of carbon emissions, to be located in other tranche (fixed tranches). The proposed scheme for this modality is the following:

- *Variable tranches* are related to key non-carbon benefits indicators to be achieved by a given developing country, such as the strengthening the livelihoods of local peoples; development of sustainable productive systems, and management of some environmental functions (water provision, among others).
- *Fixed tranches* are related to mitigation results (reduction of carbon emissions) that have been measured, reported and verified by a given country, following the modalities and procedures agreed at COP19.

For example, a non-market commitment for financing mitigation and adaptation in the second modality, encompassing a hypothetical total amount of financing of 2.000 MM dollars in a 20 years period for a given developing world country, could be the following:

- *Fixed tranches*: A total of 1.000 MM is disbursed if mitigation efforts are achieved in years 1, 6, 11 and 16.
- *Variable tranches*: A total of 1.000 MM is disbursed in years 1, 6, 11 and 16 if mitigation outcomes are achieved.

Paper no. 4: Lithuania and the European Commission on behalf of the
European Union and its member States

**SUBMISSION BY LITHUANIA AND EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN
UNION AND ITS MEMBERS STATES**

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

Vilnius, 10 September 2013

Subject: Guidance to the operating entities of the financial mechanism of the Convention

The European Union and its Member States welcome the opportunity to provide comments on the agenda item on Guidance to the Operating Entities of the Financial Mechanism. Since, at this moment in time, only the Global Environment Facility (GEF) report to the COP is available, and the Standing Committee on Finance (SCF) has deliberated on this matter during its 5th meeting in late August, the EU and its Members States will limit its submission to general remarks.

1. The EU reiterates and underlines that the scope of the guidance should in accordance with art. 11 para 3 of the Convention and art. 6 a of the Governing Instrument be confined to matters related to policies, programme priorities, eligibility criteria and matters related thereto. The EU recognizes that we are in a phase of gradual transition regarding the scope and procedures for providing guidance to the operating entities of the Financial Mechanism (FM). While preparing new guidance the following aspects should be taken into consideration:

- Firstly, the guidance will from now on cover both operating entities, the GEF and the Green Climate Fund (GCF).
- Secondly, the draft guidance will be prepared by the Standing Committee on Finance for consideration by COP19. Finalization of the 5th review takes place at the COP20.
- Thirdly, issues related to how to improve the guidance to the FM will be discussed as a part of the 5th review of the Financial Mechanism, which is to be implemented during next year and finalized by COP 20.
- And fourthly, the fact that the two operating entities are in different stages of their development, should naturally be reflected in what type of guidance is justified in each of the cases.

2. In the case of GEF emphasis should be placed on the fact that the first report on 5th overall performance study of the GEF (OPS 5) is available and that the final report is to be completed by December 2013, and that this year's guidance will be provided in the midst of the 6th replenishment negotiations of the GEF.

3. In the case of the GCF it should be recognized that it is still in its initial stages of being operationalized, that the GCF Board should finalize the operationalization of the fund, and that therefore the guidance should be limited to initial recommendations and proposals from the COP.

Global Environment Facility

4. During the past couple of years the EU has, in its previous submissions on this matter, emphasized the positive impact of the successful conclusion in May 2010 of the GEF-5 replenishment negotiations as well as the accompanying programmatic and institutional reforms have had on its capability to respond to the growing demands for enhanced support to developing countries in meeting their commitments under the Convention.

5. This observation is now broadly confirmed by the first report of the OPS 5 study of the GEF Evaluation Office. The OPS 5 report generally concludes that the overall level of the GEF responsiveness to the Convention guidance is high at both the strategic and portfolio levels. It also concludes that the GEF support at the country level is well aligned

with national priorities, shows progress toward impact at the local level, and enables countries to meet their obligations to the Conventions.

6. Preliminary information on the conclusions included in the GEF annual report to COP 19 confirms the general observation presented above and provides detailed information on recent progress in various activity areas and in responding to the Convention guidance.

7. While leaving details aside in this connection, the EU emphasizes the importance of an in-depth study and review of the findings and information included in the OPS 5 report, the GEF annual report to the COP when preparing further guidance to the GEF. These documents are essential inputs that particularly the Standing Committee of Finance can use while drafting guidance to the operating entities and working on the 5th review of the financial mechanism.

8. The EU underlines that, while continuing to avoid micromanagement of the GEF, the starting point for providing further guidance to the GEF should be an appeal to the Parties of the GEF-6 replenishment negotiations to fully accommodate the fulfilment of all obligations to the UNFCCC in the upcoming replenishment decision.

Green Climate Fund

9. The EU emphasizes that the GCF and its Board is still in the midst of its work to operationalize the fund on the basis of its Governing Instrument as approved by COP 17 in Durban. The progress achieved in this work, including the decisions taken at the fifth meeting of the Board to be held in Paris from 8 to 10 October 2013 will be reflected in the report of the GCF Board to COP 19. It is the view of the EU that we should await this report, and particularly on the results of the ongoing efforts to develop the business model of the GCF, before deciding on guidance to the fund.

10. The initial guidance to the operating entity of the FM, i.e. the GEF, as contained in COP decision 11/CP.1, includes some general principles and guidelines that de facto also apply to the GCF by virtue of the Governing Instrument of the GCF and decisions 3/CP.17 and 6/CP.18. This is for the time being sufficient as a guideline for concluding the operationalization of the GCF.³

11. The EU also wishes to point out, that reforming and developing the procedures for providing guidance to the operating entities is an integral part of the forthcoming 5th review of the Financial Mechanism. We should not prejudge the outcome of that review in a separate decision on new initial guidance to the other operating entity. Instead, it would be appropriate to leave it to the 5th review to consider the need for new general guidance covering both operating entities of the FM. This could also cover aspects such as the need to develop proposals regarding the division of labour between the two entities.

Paper no. 5: Vanuatu

Views and recommendations from Parties on elements to be taken into account in developing guidance to the operating entities of the financial mechanism of the Convention **Submission from the Republic of Vanuatu**

1. Acknowledging the progress made by the UNFCCC Secretariat and Parties to develop financial mechanisms supporting Non Annex I countries, the Republic of Vanuatu submits its views and recommendations on the elements to be taken into account in developing guidance to the operating entities of the Financial Mechanism of the Convention.
2. Insisting on the critical importance of developing effective, operational and fair modalities in the Financial Mechanism of the Convention, in particular for the most vulnerable region of the Small Island Developing States (SIDS), threatened in their integrity and survival as nations due to the negative impacts of climate change.
3. Noticing the unsatisfactory level of fulfilment of the financial pledges and considering the fast pace of climate change induced impacts in the SIDS, the Republic of Vanuatu urges contributing Parties to timely fulfil their pledges.
4. Noting with concern that no National Implementing Entity (NIE) from the SIDS has yet received accreditation, thus reflecting the limitations of the Adaptation Fund in regards to Direct Access.
5. Reminding the Parties of the 1995 Paris Declaration on Aid Effectiveness supporting the concept of “country ownership” over the national development process, the Republic of Vanuatu recommends that discussions on direct finance be given more importance during the 19th session of the Conference of Parties.
6. Considering the multiple benefits of direct finance, such as stronger ownership, better selection of national priorities, swifter implementation of projects and cost reduction, and due to the low use of Direct Finance by the Convention outside of the Adaptation Fund, the Republic of Vanuatu calls for more flexibility and broadened direct access amongst the operating entities of the UNFCCC Financial Mechanism.

1. More Flexibility in the Accreditation of NIEs under the Adaptation Fund

The fiduciary standards required for accreditation under the Adaptation Fund have been very strict and stringent. This has proven to be great challenge for most developing country parties under the Kyoto Protocol in achieving NIE accreditation that promotes direct access to climate change adaptation funding under the Adaptation Fund. The Republic of Vanuatu is concerned that within the Asia-Pacific region, where only one NIE was accredited under the Adaptation Fund, the number of NIE will be very low.

Working towards meeting its obligations under the Adaptation Fund fiduciary standards, the Republic of Vanuatu insists on the difference of capabilities between Multinational Implementing Entities (MIEs) and NIEs, and therefore recommends that developing country parties under the Kyoto Protocol, and in particular the most vulnerable Parties such as the Pacific SIDS, be allowed more flexibility in meeting those standards. The Republic of Vanuatu suggests that the Parties consider adopting an approach of minimum principles to which potential NIEs must demonstrate equivalency.¹

Under this proposal, the Republic of Vanuatu suggests that the Adaptation Fund and other UNFCCC financing avenues provide funding in degrees to Non Annex I NIEs based on the level of achievement in meeting those standards. A gradual approach could be adopted to ensure that NIEs are proposed minimum principles and given support to improve their eligibility while enabling the country to start taking ownership of the funding and implementation of

¹ Views from Discussion Paper, Direct Access to Climate Finance : Experiences and Lessons Learned – UNDP & ODI – 2011.

climate change projects. In this sense, Non Annex I NIEs could access smaller grants and work upwards until their capacity is built and the fiduciary standards fully met.

Noting the uncertain future of the Adaptation Fund due to the fall in the price of Certified Emissions Reductions (CERs), the Republic of Vanuatu supports other submissions that urge the Adaptation Fund Board to progress the decisions of COP 18/CMP8 to diversify sources of funding to the Adaptation Fund, whilst simultaneously encourage developed country Parties to make voluntary contributions to the Fund.

The Republic of Vanuatu finally suggests that the processes and requirements now being addressed for the Adaptation Fund are not completely changed or redeveloped for other funding mechanisms, e.g. the Green Climate Fund, so that the Republic of Vanuatu, and other Non-Annex I countries that are already working towards the accreditation of their NIE, are not required to start from scratch.

2. Progressing towards Direct Finance amongst the Operating Entities of the Financial Mechanism of the Convention

Considering the lessons learned and successes displayed by Multilateral Funds using Direct Finance, e.g. the Global Alliance for Vaccines and Immunisation (GAVI) and Global Fund to fight AIDS, tuberculosis and malaria (Global Fund), the Republic of Vanuatu suggests that Direct Finance be considered as a priority in the Financial Mechanisms of the Convention. The Republic of Vanuatu therefore recommends that direct access be included in the discussions of the 19th session of the Conference of Parties as a standing agenda item.

The Republic of Vanuatu finally recommends that more consideration be given to capacity building efforts of NIEs. Under this proposal, a system may be devised where an interim entity plays the role of the NIE if the national fiduciary requirements haven't been met yet, while simultaneously building the capacity of the NIE and ensuring that progress is made towards the NIE's accreditation leading to a swift handover to national institutions. Within this note, the Republic of Vanuatu would like to bring the attention of Parties on the challenges faced by SIDS Governments in their efforts to stand as qualifying institutions. Due to small-sized governmental agencies and their inequality of capabilities, meeting the first fiduciary requirement of clear legal status and under one national umbrella seems unlikely in the SIDS. Consequently, the Republic of Vanuatu calls the UNFCCC Financial Mechanism to acknowledge the limitations of the Adaptation Fund fiduciary standards and discuss alternative financing avenues and requirements to promote direct access in the Financial Mechanisms of the Convention.

It is necessary that the Financial Mechanisms of the Convention demonstrate further efforts in enabling Non Annex I countries, in particular the SIDS with small Governments and spread out capabilities, to take direct ownership and control of the funding and implementation of climate change projects. Thus, the Republic of Vanuatu hopes that the Parties give Direct Finance the place it deserves during the discussions of the 19th session of the Conference of Parties.
