

## **WORK OF THE AWG-LCA CONTACT GROUP**

### **Agenda item 3.4**

#### **Finance**

#### **Note by the facilitator on finance**

#### **version of 17 June 2011 @ 09:50**

1. Informal consultations on agenda item 3.4, on finance, were held during the second part of the fourteenth session of the Ad Hoc Working Group on Long-Term Cooperative Action under the Convention.
2. Parties discussed their views on the Standing Committee and other issues under this agenda item. Parties provided written submissions, which are annexed to this note.

## Annex

### The Group of 77 and China

15 June 2011

#### DRAFT DECISION ON THE STANDING COMMITTEE OF THE FINANCIAL MECHANISM OF THE CONVENTION

*The Conference of the Parties at its seventeenth session,*

*Recalling* Articles 4 and 11 of the Convention,

*Also recalling* Article 7 of the Convention, in particular 7.2 (h) and (i),

*Pursuant to* the Bali Action Plan (decision 1/CP.13), which recognizes the need for enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation,

*Having established* the Standing Committee under the Conference of the Parties as provided for in paragraph 112 of Decision 1/CP.16,

*Reiterating* the need for enhanced *and urgent* action on the provision of financing resources and investment to support action on mitigation, adaptation and technology cooperation to developing country Parties,

#### ON ROLES AND FUNCTIONS

1. *Reaffirms* that the Standing Committee is established under the Conference of the Parties to assist the Conference of the Parties in exercising its functions with respect to the financial mechanism of the Convention in terms of:
  - a) improving coherence and coordination in the delivery of climate change financing, including through, *inter alia*:
    - (i) the development of recommendations to the COP for the coordination of all current and future funds under the Convention to ensure coherence in the delivery of climate change finance
    - (ii) the provision of a forum for the exchange of information with relevant financial institutions, bilateral aid agencies, and UN agencies dealing with climate change financing, as well as the provision of assistance to the COP in analyzing relevant information to ensure coherence and coordination; and
    - (iii) the establishment of a communication platform to advice coordination and coherence of operating entities of the financial mechanism under the Convention, as well as coordination with other thematic bodies of the Convention to identify the gaps in implementation related to financial support.
  - b) rationalization of the financial mechanism, including through, *inter alia*, developing recommendations to rationalize the financial mechanism of the Convention and existing funds under it, for achieving cost-effectiveness and efficiency.
  - c) mobilization of financial resources, including through, *inter alia* the preparation of recommendations to the COP on the technical feasibility and enhancing accessibility of the mobilization of resources from a wide variety new and additional sources, including public and private, bilateral, multilateral and alternative sources, taking into account the financial needs identified by developing country Parties, including those contained in their national communications.
  - d) measurement, reporting and verification of support provided to developing country Parties, including through, *inter alia*,

- (i) the assessment of information related to the measurement, reporting and verification of support and enabling means provided to developing country Parties under the Convention, including through the information contained in Annex I national communications and information received from developing countries.
  - (ii) the development of recommendations on indicators for an assessed scale of contributions for Annex II countries, where applicable.
2. *Requests* the Standing Committee to elaborate an initial programme of work on all the elements identified in paragraph 1 for the consideration of the Conference of the Parties at its 18<sup>th</sup> session, as well as other elements that may be identified by the Standing Committee.

*Decides*

- 3. that the Standing Committee shall be composed of members nominated by Parties for approval of the Conference of the Parties, with expertise and competence in areas relevant to the work of the Standing Committee
- 4. that the Standing Committee shall consist of 16 members and be composed as follows:
  - a. 2 representatives from each of the 5 UN regional groups
  - b. 1 representative of the small island developing States
  - c. 1 representative of the least-developed country Parties
  - d. 2 representatives from Parties included in Annex I to the Convention
  - e. 2 representatives from Parties not included in Annex I to the Convention
- 5. that the Parties shall also nominate an alternate for each members of the Standing Committee on the same criteria as set out in paragraphs 3 and 4 above, and that the nomination of a candidate member shall be accompanied by a nomination of a candidate alternate member from the same group.
- 6. that Standing Committee members and alternates shall serve for two years. No member or alternate may serve in the Standing Committee for [more] than two consecutive terms.
- 7. that the Standing Committee shall be open to representatives of the existing and future operating entities of the financial mechanism of the Convention, representatives of relevant bilateral, regional and multilateral funding entities, and representatives of observer organizations accredited to the UNFCCC.
- 8. *Encourages* the Standing Committee to draw upon additional expertise from all levels, national, sub-regional, regional, and multilateral institutions, as it may deem necessary.
- 9. *Decides* that the Standing Committee shall meet at least twice a year, or more if necessary, and that its first meeting shall take place not later than the (date) of (month) 2012.
- 10. *Also decides* that the Standing Committee shall report and make recommendations to the Conference of the Parties at each ordinary COP session, on all aspects of its work, for decisions to be taken by the COP as may be necessary.
- 11. *Also decides* that the Standing Committee shall perform any other functions that may be assigned to it by the COP.
- 12. *Further decides* that the cost of meetings and the participation of members and alternates from developing country Parties shall be covered by the budget of the Convention.
- 13. *Decides* that the UNFCCC secretariat shall also serve the Standing Committee.

**Africa's proposal on**

**Additional items to the G77 and China proposal on  
ELEMENTS OF A DRAFT DECISION ON THE STANDING COMMITTEE OF THE FINANCIAL  
MECHANISM OF THE CONVENTION**

ON ROLES AND FUNCTIONS

- 1- improving coherence and coordination in the delivery of climate change financing, including through, *inter alia*:
  - (iv) providing a forum for the exchange of information with relevant financial institutions, bilateral aid agencies, and UN agencies, outside the Convention, dealing with climate change financing on their climate-related funding activities, and assessing the information generated through the forum, including regarding the COP guidance;
  - (v) Coordinating with other thematic bodies under the Convention to identify the gaps in implementation related to financial support.
  - (vi) assessing this information to consider its consistency with the guidance provided by the Conference of the Parties on policies, programme priorities and eligibility criteria in financing climate change;
- 2- Rationalization of the financial mechanism, including through, *inter alia*,
  - (i) Developing recommendations to rationalize the financial mechanism of the Convention and existing funds under it, for achieving cost-effectiveness and efficiency, and to avoid duplication of activities under these Funds, and ensure coherence of guidelines and modalities related to the accessibility,
  - (ii) Establishing a communication platform to advance coordination and coherence of funds under the Convention in order to improve the effectiveness of these funds through rationalization measures;
- 3- mobilization of financial resources, including through, *inter alia*
  - (i) Preparation of financial needs assessments of developing countries, based on information received from developing countries, and including through, information received from other thematic bodies under the Convention, reports on the needs and estimates of the cost of climate change by UN bodies and other Multilateral financial institutions, and any other sources of information the Committee considers;
  - (ii) Providing recommendation on the new and supplementary sources of funding, their technical feasibility, accessibility, and their impact and incidences on developing countries;
  - (iii) Development of recommendations on indicators related to burden sharing between developed country parties, including through an assessed scale of contributions of developed country parties.
- 4- measurement, reporting and verification of support provided to developing country Parties, including through, *inter alia*,
  - (i) the assessment of information related to the measurement, reporting and verification of support and enabling means provided to developing country Parties under the Convention, based on the information contained in Annex I national communications and any other additional information; and information received from developing countries.
  - (ii) providing recommendations on the amount of funding necessary and available for the implementation of the Convention, based on information received by : parties through different reporting channels under the Convention , relevant thematic bodies, and the conditions under which that amount shall be periodically reviewed;

On membership and participation (para 7 of G77 proposal)

- Further decides that the Standing Committee will establish a process to facilitate the participation of representatives from the private sector, relevant bilateral, regional and multilateral funding entities, and other observer organizations accredited to the UNFCCC as observers.

**Submission by  
Australia, Canada, Japan, New Zealand and the United States of America  
on the  
Standing Committee**

- Australia, Canada, Japan, New Zealand and the United States of America consider that the Standing Committee has the potential to perform a useful service to the Conference of the Parties with regard to the financial mechanism.
- In our exchange of views to date, there were many good ideas and concepts put on the table from both developing and developed country Parties that we look forward to exploring further in our discussions.
- In this regard, we have the honour of submitting elements for consideration during discussion of the role and functions of the Standing Committee (SC) under the AWG-LCA.
- Decision 1/CP16 provides a role for the SC in advising the CoP on the four issues enumerated in paragraph 112. We look forward to further defining the role and functions of the SC in the AWG-LCA.
- Decision 1/CP16 provides for an advisory, rather than supervisory or executive role for the SC.
- Decision 1/CP16 confirms that the SC's relationship with operating entities of the financial mechanism is via CoP guidance, rather than direct.
- Therefore, the SC could most usefully provide advice via the SBI to the CoP on the four issues enumerated in paragraph 112 of Decision 1/CP16, inasmuch as they are related to the CoP's execution of its functions with respect to the financial mechanism as defined in Article 11.
- We support a continuation of the current role of the SBI in developing draft recommendations on CoP guidance to the financial mechanism.
- In advising the CoP on the four issues enumerated in paragraph 112 of Decision 1/CP16, we support a set of functions for the SC to be mandated by the CoP.
- To best advise the CoP, the SC could undertake the following functions:
  - Enhancing awareness and sharing of climate finance-related information, knowledge and expertise;
  - Assisting the CoP in promoting coordination and coherence within the financial mechanism and between UNFCCC entities on climate finance issues; and,
  - Helping to inform and improve the guidance to the financial mechanism that is recommended by SBI to the CoP and enhancing the periodic review of the financial mechanism.
- In exercising these functions, we support an evidence-based approach to the SC's work, ensuring expert, objective and impartial advice on issues related to the financial mechanism.
- To ensure that the CoP can rely on advice of the highest quality, SC members would need to have the necessary skills and expertise and a strong background in climate finance.
- We welcome a discussion of how to compose a light, technical, advisory body, with appropriate participation of finance experts from relevant funding institutions and stakeholders, including civil society and the private sector.

**EU - Elements of the Standing Committee**

## Standing Committee

It is crucial to emphasise from the start that the role of the SC will be advisory. We see a role for the SC where its *functions* add value to the climate finance landscape and its *form* is light and cost effective.

Our Vision: In order to assist the COP with respect to the financial mechanism of the Convention, we see that the standing committee if appropriately designed could take forward following functions, which correspond to Cancun provisions for the Standing Committee.

- ensuring a periodic overview of financial flows of climate finance from all relevant sources
- reviewing the distribution of climate finance and identifying finance gaps,
- encouraging synergies and coordination of all relevant actors.

In so doing, the standing committee could play a useful role in

- increasing awareness of the role played by the many sources of finance in supporting climate action, including bi-lateral and private financing.
- providing a means of showing progress towards global goals for climate finance.
- contributing to building trust among parties about the implementation of the convention.

To perform its functions, the SC will draw on evidence from a collation of information on financial flows which could be prepared by the secretariat. These data will be collected from all relevant sources (e.g. the operating entities of the financial mechanism, the national communications, registry, the CDM EB and possibly outsourced analysis on private financial flows).

We do not see the standing committee having a role in designing, operating or revising the MRV system relating to reporting obligations of individual parties. This is addressed through the updates to the guidance on preparing national communications. We could not agree to a separate additional MRV system.

### Composition

We prefer to speak about function before form. However, we do see the committee as Expert. The SC could somehow include expertise eg. from GCF, GEF, AF, LDCF, and experts from other relevant financial institutions in an ex officio role.

### On reporting to the COP or SBI:

An important issue is that we need clarity on the division of labour between SBI and Standing Committee. The division would depend on the functions in question and also the composition of the SC. We are open to discussion on this area and to explore the issue. There shall be no duplication of work between the Standing Committee and institutions.

The functions outlined in the Cancun Agreements, as developed above, together with an expert composition could help improve the production of guidance given by the COP to the financial mechanism by making it more result orientated.

A useful starting point could be to collect all existing guidance to the financial mechanism in one consolidated document that removes duplication and address inconsistencies, and to present the draft consolidated document to the COP.

It should be noted that the implication of the above is that we do not see an operational role for the standing committee. The standing committee should not take the place or undermine the role of the COP e.g. in providing guidance to the financial mechanism, or in national communications etc.

## **Submission by the Republic of Turkey on the Standing Committee**

Bonn 10 June 2011

Turkey believes that the Standing Committee should have fair, equitable and inclusive representation. This has not been the case for the Transitional Committee since certain countries in the Eastern European Group and Western Europe and Others Group could not be represented. It must be ensured that each and every Party has a fair opportunity to be represented in the Standing Committee. Therefore, Turkey proposes that a certain number of representatives for each United Nations Regional Group should be assigned, without making any reference to developed and developing countries.



## **India's views on Standing Finance Committee**

India fully associate ourselves with the draft text made available by G-77 and China.

Our submission is, however, intended to provide views of India on the following points:

- (i) Standing Finance Committee should, besides developing recommendations to the COP for the coordination of all current and future funds, also develop recommendations for providing and channeling the resources under the Convention;
- (ii) Standing Finance Committee should, besides establishing a communication platform to advice coordination and coherence of funds under the Convention, also advance and enable such coordination in order to improve the effectiveness of these funds through rationalization measures;
- (iii) Standing Finance Committee should recommend, in accordance with the guidelines established by the CoP, the flow of new and additional resources through various sources and channels of finance and monitoring such flows and channels.

***Draft decision  
on  
Long term, scaled up, new and additional, predictable and adequate funding  
to developing countries***

*The Conference of the Parties at its 17th Session,*

*Recalling Article 4 and Article 11 of the Convention ;*

Recalling also the Bali Action Plan (decision 1/CP.13) which called for enabling the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012 ;

Reiterating paragraph 97 of decision 1/CP.16, that in accordance with the relevant provisions of the Convention, scaled up, new and additional, predictable and adequate funding shall be provided to developing country parties, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change;

Reiterating paragraph 18 of decision 1/CP.16 that requested developed country parties to provide developing country parties, with long-term, scaled-up, predictable, new and additional finance, technology and capacity-building consistent with relevant provisions, to implement urgent, short, medium, and long term adaptation actions, plans, programmes and projects at local, national, sub-regional and regional levels, in and across different economic and social sectors and ecosystems;

Reiterating the need for enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation;

Recognizing that providing support in particular financial support to developing countries is indispensable for the implementation of the Convention, and the relevant decisions of the Conference of the Parties, and that the extent of developing country parties actions in dealing with climate change is dependent on the extent to which finance, technology and capacity building support is made available to them by developed country parties;

Taking note of the relevant reports on financing needs of developing countries, and reports on options for mobilization of resources to address those needs.

*Decides*

1. That adequate and predictable financial support shall be provided to developing countries based on their needs.
- 2- That in accordance with article 4.3 of the Convention, and to ensure adequacy and predictability of the flow of support to developing countries, a burden sharing mechanism is established to identify the flows of financial support from developed countries, including through the application of assessed scale of contributions of developed countries.
- 3- That main source of funding will be public sources, supplementary funding may come from private sources, as well as through multilateral and bilateral channels, with a view to develop modalities to facilitate MRV of the flows of the supplementary sources.
- 4- New and additional financial support provided by developed country parties to developing countries will be replenished from wide variety of sources, mainly public sources, and including through :
  - i. Public sources building up on the commitments of the fast start finance identified in paragraph 95 of decision 1/CP.16, and reaching at least 100 billion USD annually in 2020, based on assessed scale of contributions;
  - ii. Predictable and sustainable financial resources reaching (x)% annually of all annex I GDP by 2020, based on assessments reports of the needs of developing countries.
  - iii. Other potential supplementary sources of finance including market based, alternative and innovative sources.

- 5- That direct and facilitated access of all developing countries to financial resources will be guaranteed by COP decisions.
- 6- That equitable allocation of financial resources will be followed, including through criteria based on geographical and/or needs, including urgent and immediate needs related to climate change, while ensuring balance between adaptation and mitigation.
- 7- To establish a work program in order to further elaborate on all the elements identified in paragraphs 1 to 6 of this decision, with a view to prepare a draft decision for the consideration of the Conference of the Parties at its 18<sup>th</sup> session.
- 8- Requests the Secretariat to prepare a compilation and synthesis report, for the consideration by parties through the work program, on:
  - i. Different assessments and evaluations of the financial needs of developing countries.
  - ii. Options for mobilizing and identifying sources of long term financing by developed countries, and their impacts and incidents on developing countries.
- 9- Invites Parties, observers, international financial institutions and relevant UN agencies to submit their views by the May 15th 2012, on the financial needs of developing countries, public and private sources, and other sources of long term financial resources, and their technical feasibility, applicability, and adequacy.

## Elements of the final outcomes on long term finance – Saudi Arabia perspectives

- Recalling the commitments of the developed country Parties and other developed Parties included in Annex II to the provisions of financial resources mandated under Articles 4.1, 4.3, 4.4, 4.5, 4.8, and 4.9 in accordance with Article 11 of the Convention.
- Emphasizing that any funding pledged outside the UNFCCC shall not be regarded as a fulfillment of the legally binding commitments by Developed country Parties and other developed Parties included in Annex II under Article 4.3 of the Convention and under Para 98 of Cancun Agreements.
- Recognizing the priority of developing country Parties that are particularly vulnerable to the adverse impacts of climate change and the adverse impacts of **response measures** including **economic diversification**.

### *Decides*

- that the public sector of the developed country Parties and other developed Parties included in Annex II shall be the major source of the long term finance, and the private-sector sources may play a complementary role in addressing climate change challenges.
- that a mechanism shall be established to assess the incidence of the new and innovative sources of finance on developing country Parties.
- that developed country Parties and other developed Parties included in Annex II shall cover the full costs of any incidence on developing country Parties associated with the implementation of new or innovative sources of fund as stated in Article 4.7 of the Convention.
- that the developed country Parties and other developed Parties included in Annex II shall provide a clear work plan on their pledged assessed contributions post 2012 and up to 2020 for approval by COP seventeen.
- that all developing country Parties are eligible to directly access the long term finance, to cope with the impact of climate change and the implications of the response measures.
- that the provisions of the long term finance are pertinent to the UNFCCC process and shall be dealt with ONLY through the UNFCCC bodies.

***India's views on elements for decision  
on  
Long Term Finance***

2. That the resources to be provided by developed country parties should be committed and scaled up in accordance with the assessment of the needs of the developing countries for adaptation and mitigation.
3. The resources should be generated and provided on a predictable, verifiable, and scalable manner.
4. The provision of resources should be the responsibility of the developed country Parties, even though the resources may be generated by these Parties from a wide variety of sources, public and private, bilateral and multilateral.
5. Developed country parties should provide the resources on the basis of assessed scale of contributions in order to ensure predictability and scalability.
6. The financial support to be provided by developed country parties should be 'new and additional' and should be on grant or 'concessional basis'. These should be provided through budgetary mechanisms of developed country Parties and could be generated, according to the national discretion of such Parties concerned from new instruments in accordance with the principles of Common But Differentiated Responsibilities of UNFCCC.
7. Financial instruments or economic and environmental measures to be employed by developed country parties, if any, for raising new and additional resources should have no incidence on any developing countries or its entities, and the fiscal or economic effects such instruments or measures must be contained within national boundaries of the respective countries.
8. That direct and facilitated access of all developing countries shall be guaranteed by COP decisions.
9. That equitable allocation of financial resources shall be followed, including through criteria based on needs, while ensuring balance between adaptation and mitigation.
10. Resources should be subject to monitoring for which modalities should be developed.
11. To prepare a draft decision for the consideration of the Conference of the Parties at its 18<sup>th</sup> session on the above issues.

## **AOSIS submission on sources of long-term finance**

*AOSIS believes that in the lead up to COP 17 in Durban, Parties need to deepen their understanding on options for ensuring scaled-up, new and additional, predictable and adequate funding to meet the long term financing goals. We believe that activities such as technical workshops can provide the space, within the formal negotiating process, to achieve this objective.*

*In this regard, AOSIS wishes to propose the following draft conclusions. We consider it to be an interim approach and as we move toward Durban, AOSIS will make a formal submission on a draft decision on sources of long-term finance.*

1. The AWG-LCA further requests the secretariat to organize, from now until and at COP17, [X] technical workshops<sup>1</sup> with representatives from Parties, international financial institutions and relevant UN agencies and organizations, on the provision of longer term sources of finance, including innovative sources, by developed country Parties to developing country Parties in accordance with the Convention, with a view to:

(a) Providing opportunity for Parties to present and discuss their proposals and preferred options for ensuring provision by developed countries of scaled-up, new and additional, predictable and adequate funding, in accordance with paragraph 97 of Decision 1/CP.16;

(b) Clarifying assumptions, options and findings from relevant reports, processes and other inputs, on mobilizing sources from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.

(c) Considering approaches to avoid climate change financing gap after the 2010-2012 fast-start financing period.

2. The AWG-LCA further requests the secretariat to prepare a report on the [X] workshops referred to in paragraph 1 above, to be made available by its [XX] th session.

\*\*\*\*

---

<sup>1</sup> With the understanding that any discussion in the workshops will not replace formal inter-governmental processes on this issue.