



Standing Committee on Finance

23 October 2018

**Nineteenth meeting of the Standing Committee on Finance
Bonn, Germany, 29–31 October 2018**

**Background paper on the draft guidance to the operating entities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

Expected actions by the Standing Committee on Finance

The Standing Committee on Finance (SCF) will be invited to agree on the draft guidance to the operating entities of the Financial Mechanism for consideration by the Conference of the Parties at its twenty-fourth session.

I. Possible actions for consideration by the Standing Committee on Finance

1. The Standing Committee on Finance (SCF) may wish to use as basis for its deliberations the draft decision text on the guidance to the operating entities of the Financial Mechanism, prepared by the co-facilitators of the working group.
2. The SCF may wish to consider the following when deliberating the draft guidance:
 - (a) The reports of the Green Climate Fund (GCF)¹ and the Global Environment Facility (GEF);²
 - (b) 3 inputs from the SCF members, as contained in annex I;
 - (c) One submission from a Party, as contained in annex II;
 - (d) Inputs from the Technology Executive Committee (TEC) and the Adaptation Committee (AC), as contained in annex III;
 - (e) The set of criteria against which the inputs received will be assessed to see whether the inputs are:
 - (i) In line with the mandates of the operating entities;
 - (ii) Ongoing and are being currently undertaken by the operating entities;
 - (iii) Not contradictory to previous guidance given to the operating entities;
 - (iv) Not duplicative of previous guidance.
 - (f) The database of previous guidance to the operating entities.³

¹ Available at: <https://unfccc.int/documents/182432>. An addendum report will be available after the conclusion of the 21st meeting of the GCF Board.

² Available at: <https://unfccc.int/documents/182455>. An advance version of the addendum report is available at <https://unfccc.int/topics/climate-finance/meetings--events/scf-committee-meetings#eq-19>.

³ The Excel file is available at: <https://unfccc.int/topics/climate-finance/meetings--events/scf-committee-meetings#eq-19>.

II. Background

3. In decision 2/CP.17, the COP decided that the SCF shall provide to the COP draft guidance for the operating entities of the financial mechanism of the Convention, with a view to improving the consistency and practicality of such guidance, taking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.⁴

4. In the context of the review of the functions of the SCF, COP 23 encouraged Parties and other constituted bodies to continue to provide submissions for the preparation of draft decisions on guidance to the operating entities, based on the reports of the operating entities, in a timely manner to the SCF.⁵ The secretariat sent a reminder to the focal points of the UNFCCC negotiating groups to encourage Parties in submitting their views on the draft guidance. As at 4 October 2018, the secretariat received only one Party submission, as contained in annex II.⁶ The AC and the TEC submitted their inputs to the SCF on 1 October 2018, as contained in annex III.

5. At its 18th meeting, the SCF members were encouraged to submit any additional inputs to the draft guidance to the GCF as soon as possible after the conclusion of 21st meeting of the GCF Board (23 to 26 October 2018), for timely consideration by the SCF at its next meeting. During the breakout group, views were expressed on possible elements of draft guidance to the operating entities, including:

- (a) Replenishment of the operating entities of the FM;
- (b) Efficiency of the Capacity-building Initiative on Transparency programme of the GEF;
- (c) Transparency of information reported by the GCF on the status of approved projects in its portfolio;
- (d) GCF support for alternative policy approaches for the integral and sustainable management of forests;
- (e) Direct access and simplified access modalities of the GCF.

⁴ Decision 2/CP.17, paragraph 121 (c).

⁵ Decision 8/CP.23, paragraph 6–8.

⁶ Any additional submissions from the Parties will be made available at the SCF 19 meeting documents page. <https://unfccc.int/topics/climate-finance/meetings--events/scf-committee-meetings#eq-19>.

Annex I

Inputs received from the SCF members

Inputs from Mr. Kazuhiro Iryu (received on 7 September 2018)

Annotated suggestions for elements of draft guidance to the GCF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Programme priorities	Access	<i>Welcomes</i> with appreciation the efforts to improve access to the GCF through readiness and preparatory support and structured dialogues and <i>encourages</i> the GCF to continue such efforts.	The COP should indicate appreciation for the efforts to improve access to the GCF.	2.1, p4, Seventh Report of the GCF
	Private Sector	<i>Welcomes</i> with appreciation the Private Sector RFP and the publication of top 30 concepts and <i>encourages</i> the Secretariat to work with them towards developing full funding proposals for consideration by the Board.	The COP should indicate appreciation for the efforts to improve the engagement of the private sector.	7.2, p. 27, Seventh Report of the GCF
	Private Sector	<i>Welcomes</i> with the appreciation mobilizing private finance by the GCF projects and <i>encourages</i> the Secretariat to continue to prepare private sector funding proposals.	The COP should indicate appreciation for the efforts to improve the engagement of the private sector.	7.2, p. 27, Seventh Report of the GCF

Inputs from Mr. Pieter Terpstra (received on 8 September 2018)

Annotated suggestions for elements of draft guidance to the GCF and the GEF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Policies	Policies to prevent Sexual Exploitation and Abuse of Authority	<i>Requests</i> the [GCF][GEF] to review and if necessary update or adopt policies for the prevention of sexual exploitation and abuse of authority with the aim to protect staff of the operating entities as well as their partner organisations from unwanted sexual advances, prevent inappropriate behavior and abuse of power and provide guidelines for reporting incidents.	To function well, the GCF and GEF should to be excellent employers and ensure a working environment where people are free to be themselves, where people feel heard and appreciated, and where there is zero tolerance of inappropriate behaviour, including sexual harassment. #MeToo has brought a great many incidents to light involving sexual harassment and inappropriate behavior during the implementation of projects and programmes in a number of countries. The movement has revealed that sexual misconduct and abuse of power occur in many organisations and sectors, and despite the many procedures in place to prevent and report on such incidents. Therefore the GEF and the GCF should review and if necessary strengthen their integrity policies and procedures to prevent and combat sexual harassment and inappropriate behaviour within their organization and establish processes to report incidences in accredited entities and/or implementing entities.	

Inputs from Mr. Randy Caruso (*received on 10 September 2018*)
Annotated suggestions for elements of draft guidance to the GCF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Policies	Decision-making Process	<i>Requests</i> the GCF Board to prioritize development of procedures for adopting decisions in the event that all efforts at reaching consensus have been exhausted		GCF Governing Instrument paragraph 14
	AML/CFT/Prohibited Practices	<i>Urges</i> the GCF to prioritize developing full policies and implementing standards on prohibited practices, including policies addressing anti-money laundering and countering the financing of terrorism.	This policy is a critical to the institutional architecture of the GCF that exposes the institution to significant reputational and financial risk. Therefore, it should be dealt with urgently. The Board originally requested these documents for the 11 th Board meeting.	Decisions B.10/06
	Review of the IRM	<i>Encourages</i> the GCF to request its Independent Evaluation Unit to initiate an independent review of the Initial Resource Mobilization Period to inform future policies, priorities, and planning.	Developed countries need a forward-looking review of the IRM to inform any replenishment pledges and decision-making.	
	Independent Accountability Mechanisms	<i>Welcomes</i> the establishment of a robust independent accountability mechanism and <i>requests</i> the GCF to ensure the smooth functioning of the independent units including through prompt approvals of their budgets and work plans.		GCF Governing Instrument paragraphs 60, 68, 69
Programme priorities	Pipeline Management	<i>Welcomes</i> the GCF's rapid scaling up of funding proposal approvals and <i>encourages</i> the GCF to develop a structure for prioritization of proposals and for ensuring effective and efficient use of funds.		
	Programmatic Approaches	<i>Requests</i> the GCF, as an operating entity of the Financial Mechanism, to promote the use of programmatic approaches, including national, regional, global, and cross-sectoral programs and to develop a programmatic approach modality to enable program development.	Greater use of programmes is needed to allow GCF to reach the scale of operations it needs to tackle the climate challenge, yet policy and institutional barriers still exist. The most critical to address is development of a programmatic approach modality.	GCF Governing Instrument paragraph 36; B.07/03, paragraph (e)

Inputs from Mr. Randy Caruso
Annotated suggestions for elements of draft guidance to the GEF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Policies	Fiduciary Standards	<i>Welcomes</i> the GEF Council’s decision to begin the process of developing an anti-money laundering and counter terrorism finance policy, and <i>requests</i> that updates on this work be included in the GEF’s report to COP-25.	This is a positive step towards mitigating risks posed by money laundering or terrorist finance in projects the GEF funds.	Identification of Issues Related to Anti-Money Laundering and Combating the Financing of Terrorism GEF/C.54/09.Rev.01
	Co-financing	<i>Welcomes</i> the updated policy on co-financing of the Global Environment Facility, which establishes a greater level of ambition for the overall GEF portfolio.”	This GEF Council decision represents a positive step towards modernizing the GEF and its co-financing policy in line with the GEF-7 replenishment resolution.	Updated Co-Financing Policy GEF/C.54/10.Rev.01
Programme priorities	Private Sector	<i>Welcomes</i> the establishment of the Private Sector Advisory Group, and <i>encourages</i> a balanced composition in terms of gender and geographical coverage.		Private Sector Advisory Group ToRs GEF/C.54/13.Rev.01
	GEF-7 Replenishment	<i>Welcomes</i> with appreciation the seventh replenishment of the Global Environment Facility (July 2018 to June 2022), while urging all countries that have not made pledges for the seventh replenishment of the Global Environment Facility to do so as soon as possible;		Summary of the GEF-7 Negotiations, GEF/C.54/19

Annex II

Submissions received from the Parties⁷

Submission by Austria and the European Commission on behalf of the European Union and its Member States (received on 21 September 2018)

Summary of key points

- The EU would like to reiterate the importance of a distinction between durable core guidance to the Financial Mechanism and annual additional guidance. Any additional guidance should remain focused and in accordance with the existing provisions between the Convention and the operating entities under the FM.

With regards to the Green Climate Fund (GCF),

- The EU welcomes recent work to strengthen the GCF's institutional capacity, standards and safeguards, transparency, inclusiveness, pipeline and role within the climate finance landscape.
- Saying this, the EU also highlights the utmost importance and urgency of addressing remaining policy gaps, including on decision-making related matters as specified in the Fund's Governing Instrument and its Rules of Procedure.
- This also refers to the further work for improving and evaluating the Fund's impact, effectiveness and operational performance in order to fulfil its mandate of promoting the necessary paradigm shift towards low-emission and climate-resilient development pathways, in line with the Fund's governing instrument.

As for the Global Environment Facility (GEF),

- The EU welcomes the robust GEF-7 replenishment negotiations and its positive outcome, resulting in an overall financial package of approx. USD 4.1 billion for the next four years and a strong set of policy recommendations.
- As part of the GEF-7 agreement, the EU strongly supports the increased integration of climate to other focal areas and to Impact Programs, the better use of synergies and increased focus on innovation. As a consequence, the targets for climate change mitigation results in GEF-7 amount to a doubling in ambition compared to GEF-6, despite a smaller focal area allocation.

I. Introduction

1. The EU and its Member States welcome the opportunity to send inputs for consideration by the SCF for developing guidance to the operating entities of the Financial Mechanism (FM). We would like to reiterate the importance of the SCF analysis of past guidance in order to establish a distinction between more durable core guidance to the FM to be revised mainly on the basis of the regular reviews of the FM and annual additional guidance. We believe this work is key to reducing redundancies, incoherence, and inconsistencies within the guidance provided to the operating entities.
2. Similarly, the EU also refers to the request by COP20 to the SCF to provide advice on the issue of the frequency of the guidance to the Financial Mechanism. In this context we welcome the work done thus far by the SCF. Furthermore, we would like to note that giving guidance to the operating entities should be limited to the specific agenda item under COP and avoid preempting decisions that fall under the mandate of the Boards of those entities, including on matters related to the replenishment cycles of the operating entities. Other constituted bodies under the Convention are invited to send their inputs to the SCF which should help in this regard.

⁷ Submissions are accessible directly through the UNFCCC Submission Portal:
<http://www4.unfccc.int/sites/SubmissionPortal/Pages/Home.aspx>

II. Annual guidance to the GCF and the GEF

3. The EU wants to avoid any micro-management of the work and operations of the operating entities and duplication of previous guidance. Therefore, any additional guidance should remain strictly focused and in accordance with the existing provisions between the Convention and the operating entities under the FM.
4. When it comes to specific annual guidance to the Global Environment Facility and the Green Climate Fund respectively, the EU requests the SCF to review the guidance provided by COP23 and the annual reports of the GEF and the GCF to the COP on how this guidance has been implemented, and to consider very carefully whether any additional guidance is required at this juncture. In this context, the EU welcomes the recent work undertaken by the two operating entities of the FM on complementarity and coherence and encourages further division of labour taking into consideration the comparative advantages of each entity, e.g. taking into account the reforms agreed in the context of the GEF-7 negotiations.
5. The EU also considers relevant that the cooperation and coordination continues between the two operating entities of the Financial Mechanism in order to enhance effectiveness and efficiency among the two entities as well as with other climate finance delivery channels. We thank both secretariats of the OEs for their current efforts in this regard. The strengthening of the strategic role and comparative advantage of the GCF and the GEF in the climate finance architecture is also expected to pave the way for more effective cooperation between the Operating Entities of the Financial Mechanism and other relevant climate finance institutions.

With regards to the Green Climate Fund

6. The EU welcomes the recent work to strengthen the GCF's institutional capacity, standards and safeguards, transparency, inclusiveness, pipeline and role within the climate finance landscape. However, after some years of teething problems we should be getting closer to the stage where the fund works in business-like manner with a strong secretariat and professional Board.
7. In this respect, the EU highlights the importance of urgently closing the remaining policy gaps in an expedite manner, including on decision making related matters as specified in the Fund's Governing Instrument and its Rules of Procedure. This also refers to further work necessary for improving and evaluating the Fund's impact, effectiveness and operational performance in order to fulfil its mandate of promoting the necessary paradigm shift towards low-emission and climate-resilient development pathways.
8. In line with the objectives and guiding principles of the Green Climate Fund, the EU also stresses the importance of a robust, high-quality, ambitious and outcome-driven pipeline of funding proposals in line with the GCF's governing instrument. We reaffirm the necessity to focus on implementation and to speed up disbursement of funds to already-approved projects as a key element of the GCF's operations.
9. In line with the mandate and guiding principles of the GCF, the EU stresses the importance of generating high quality funding proposals with significant impact in terms of mitigation and/or adaptation, while following international best practices for environmental, social and governance (ESG) standards.

As for the Global Environment Facility.

10. The EU welcomes the robust GEF-7 replenishment negotiations and its positive outcome, resulting in an overall financial package of approx. USD4.1 billion for the next four years (2019-2022) and a strong set of policy recommendations. As part of the GEF-7 agreement, we also strongly support ongoing work for the increased integration of climate to other focal areas and to Impact Programs, the better use of synergies and increased focus on innovation. As a consequence, the targets for climate change mitigation results in GEF-7 amount to a doubling in ambition compared to GEF-6, despite a smaller focal area allocation.

11. The EU also welcomes the decision of including the support for CBIT (Capacity Building Initiative for Transparency) into the core GEF budget, making the funding for the Initiative more predictable. As in prior GEF cycles, eligible countries will continue to have access to support for convention obligations (NatComs, BURs). We welcome the continued support in GEF-7 to enhance countries' capacities related to transparency both through the CBIT and direct support to reporting.
12. With the new programming priorities and policy recommendations for the GEF-7, Parties should carefully consider whether new guidance from the COP is needed at this juncture.

III. Closing remarks

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

Annex III

Inputs received from the AC and the TEC

Inputs from the AC (received on 1 October 2018)

Annotated suggestions for elements of draft guidance to the GCF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Programme priorities	Readiness and Preparatory Support Programme	<i>Commend</i> progress made in 2018 in enhancing access to the Readiness Programme for adaptation planning and increasing the accreditation of direct access entities for projects, in particular the value of increased support from the GCF secretariat for building national capacity and supporting the development of proposals for funding under the Readiness Programme by national readiness delivery partners.		See document SB48.AC.1, section IV, para 20. ⁸
		<i>Invite</i> the GCF to develop transparent review criteria for other areas of the Readiness Programme	The application of the 10 review criteria for proposals to the GCF for the formulation of adaptation planning processes has increased the transparency and simplicity of the approval process.	See document SB48.AC.1, section IV, para 21(b).
Policy	Accreditation	<i>Encourage</i> countries to make more use of national delivery partners	Serving as an NDA delivery partner of readiness activities does not require accreditation but a much simpler financial management capacity assessment (FMCA). Undergoing FMCA to serve as a readiness delivery partner takes much less time (typically 3–5 months) than accreditation for project implementation and the GCF is striving to further enhance efficiency by engaging the United Nations Office for Project Services in providing support in this regard.	See document SB48.AC.1, section IV, para 21(d).
	Access	<i>Recommend</i> to simplify the funding proposal templates to have a truly simplified approval process	While under the simplified approval process the project concept note has been simplified, the funding proposal template has not yet been simplified and still requires a pre-feasibility study, a summary of the consultations with stakeholders and an engagement plan with a grievance redress mechanism, similar for large-scale projects.	See document SB48.AC.1, section IV, para 21(c).

⁸ Document available at <https://unfccc.int/fr/node/66201#eq-1>.

Inputs from the TEC (received on 1 October 2018)
Annotated suggestions for elements of draft guidance to the GCF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Programme priorities	Collaboration between NDA and NDE	<i>Welcomes</i> the nine readiness requests submitted by NDAs with UNEP (as host of the CTCN) as delivery partner to GCF's Readiness and Preparatory Support Program and <i>further encourages</i> continued collaboration between national designated authorities for the Green Climate Fund and national designated entities for technology development and transfer	COP decision 15/CP.22, underlines the importance of well-functioning and strengthened collaboration between the national designated authorities for the Green Climate Fund, the focal points for the Global Environment Facility and the national designated entities for technology development and transfer	Seventh report of the GCF to the COP, chapter 4.2
	TOR for RFP on climate technology incubators and accelerators	The TEC <i>welcomes</i> with appreciation the collaboration with the GCF in 2018 and, in light of the urgency to bring new technologies to market, recommends that the COP <i>encourages</i> the GCF to finalize as soon as possible the terms of reference for a request for proposals to support climate technology incubators and accelerators, in accordance with its Board decision B.18/03, and to report on its progress to the COP at its twenty-fifth session.	By decision B.18/03, the GCF Board requested the GCF secretariat to develop the terms of reference for a RFP to support climate technology incubators and accelerators. In developing the TOR, the GCF secretariat has been collaborating with the TEC and the CTCN. The GCF secretariat continues to seek technical feedback and inputs from the TEC and the CTCN in the development of the RFP.	Seventh report of the GCF to the COP, chapter 4.4

Inputs from the TEC
Annotated suggestions for elements of draft guidance to the GEF

<i>Elements</i>	<i>Sub-elements</i>	<i>Proposed inputs</i>	<i>Rationale for the inputs</i>	<i>Source of information / reference</i>
Programme priorities	Collaboration between the GEF and the Climate Technology Centre and Network	<i>Invites</i> the GEF to enhance the information in its reports to the COP on the outcomes of the collaboration between the Poznan strategic programme's (PSP) climate technology and finance centers and the Climate Technology Centre and Network	The PSP regional climate technology transfer and finance centers were established to generate lessons learned to help inform the Technology Mechanism. In addition, there are potential synergies in the activities undertaken by the centers and the CTCN.	Report of the GEF to COP 24, paragraph 159 and 161-165