

Thirteenth meeting of the Technology Executive Committee

United Nations Campus (AHH building), Bonn, Germany
6–9 September 2016

Background note

Draft inputs for the draft guidance to the operating entities of the Financial Mechanism

I. Introduction

A. Background

1. One of the functions of the Standing Committee on Finance (SCF) is to provide to the Conference of the Parties (COP) draft guidance to the operating entities of the Financial Mechanism of the Convention, with a view to improving the consistency and practicality of such guidance, taking into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 relevant submissions from Parties.
2. The SCF has invited the Technology Executive Committee (TEC) to provide inputs to the SCF with regards to the draft guidance of the operating entities of the Financial Mechanism to be provided to COP 22. This activity has been reflected in the rolling workplan of the TEC for 2016-2018 (activity 16.2 of the workplan).
3. At its 12th meeting (TEC 12), the TEC requested its task force on climate technology financing (task force on finance) to prepare draft inputs for draft guidance to the operating entities of the Financial Mechanism for consideration at TEC 13.

B. Scope of the note

4. This background note provides a compilation of draft inputs for the draft guidance to the operating entities of the Financial Mechanism, submitted by members of the task force on finance.

C. Possible action by the Technology Executive Committee

5. The TEC will be invited to agree on inputs to the SCF for draft guidance to the operating entities of the Financial Mechanism.

II. Process for preparing draft guidance to the operating entities of the Financial Mechanism

6. In its invitation to the TEC, the SCF provided the following information regarding the scope, format, timing of the inputs for the draft guidance, and how these will be processed:
 - (a) Scope: the annual reports of the operating entities should form the basis for the inputs provided;
 - (b) Format: the thematic bodies are invited to provide inputs using the same template as last year;



(c) Timing: the SCF has tentatively scheduled its last meeting in 2016 to take place after the last meeting of the thematic bodies in order to give sufficient time to the thematic bodies to provide the SCF with their respective inputs;

(d) Processing of inputs received: the SCF aims to recommend draft guidance for consideration by COP 22 through its annual report to the COP. The SCF will prepare the draft guidance based on inputs, inter alia, received from the TEC.

7. The SCF also invited the TEC to take into account previous guidance provided to the operating entities of the Financial Mechanism on technology related matters in providing inputs to the SCF on draft guidance to the operating entities.

III. Draft inputs for the draft guidance to the operating entities of the Financial Mechanism

8. In preparing draft inputs for the draft guidance to the operating entities of the Financial Mechanism, the following documents were taken into account:

(a) Report of the Green Climate Fund to COP 22;¹

(b) Report of the Global Environment Facility to COP 22;²

(c) Previous guidance provided to the operating entities of the Financial mechanism on technology related matters.

9. A compilation of inputs received from task force members of the task force on finance is contained in Annex I.

¹ FCCC/CP/2016/6.

² FCCC/CP/2016/7.

Annex I**Draft inputs for the draft guidance to the operating entities of the Financial Mechanism****Table 1: Annotated suggestions for elements of draft guidance to the Global Environment Facility**

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>
Policies			
Programme priorities	Poznan strategic programme on technology transfer	<p>FCCC/CP/2016/6, pp.15</p> <p>SBI 43 encouraged the GEF to share the midterm evaluations of the PSP climate technology transfer and finance centres and pilot projects of the fourth replenishment of the GEF with the TEC and the CTCN as soon as available.</p>	<p>Welcomes the actions taken by the GEF in response to the recommendations by the TEC following the evaluation of the Poznan strategic programme to enhance the effectiveness of the Technology Mechanism.</p> <p>The TEC recommends that the GEF be invited to share the midterm evaluations of the PSP climate technology transfer and finance centres and the GEF-4 pilot projects with the TEC as soon as available. These would be shared with the aim of the TEC preparing a synthesis report on the experiences and lessons learned from these activities for consideration by COP 23 through the SBI.</p>
Eligibility criteria			

Table 2: Annotated suggestions for elements of draft guidance to the Green Climate Fund

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>
Policies	Funding: Technology development and transfer	<p>GCF/B.13/32/Rev.01 pp 36-37</p> <p>COP Guidance: Also invites the Board of the Green Climate Fund, in line with paragraph 38 of the governing instrument of the Green Climate Fund, to consider ways to provide support, pursuant to the modalities of the Green Climate Fund, for facilitating access to environmentally sound technologies in developing country Parties, and for undertaking collaborative research and development for enabling developing country Parties to enhance their mitigation and adaptation action.</p> <p>Decision 7/CP.21, paragraph 22</p> <p>GCF action: The GCF Strategic Plan identifies the ability to take on risks that other funds/institutions are not able or willing to take, including risks associated with deploying innovative climate technologies as key for the GCF to achieve maximum impact.</p> <p>As per decision B.12/07, the Board is set to consider at B.14 ways to provide support pursuant to the existing GCF modalities, for facilitating access to environmentally sound technologies in developing countries, and for undertaking collaborative research and development for enabling developing countries to enhance their mitigation and adaptation actions.</p>	<p>Proposed input:</p> <p>Invites the Green Climate Fund to consider supporting the establishment by developing country Parties of climate technology innovation policy frameworks to incentivize and support collaborative research and development.</p> <p>Rationale:</p> <p>Joint annual report of the Technology Executive Committee and the Climate Technology Centre and Network for 2015, Key messages for the Conference of the Parties, FCCC/SB/2015/1, para. 58:</p> <p>(a) Attracting financing for climate technologies requires a combination of governmental policies that are: (i) Long-lasting: sustained for a duration that reflects the financing time frame of a project; (ii) Loud: establish policies and provide incentives that make a difference to the bottom line and improve the bankability of projects; (iii) Legal: provide a clear, legally established regulatory framework to build confidence that the regime is stable and can provide the basis for capital-intensive investments;</p> <p>TEC Brief #6, Enhancing Access to Climate Technology Financing, UNFCCC, November 2015, p 7:</p> <p>ACTIONS BY DOMESTIC POLICYMAKERS/ GOVERNMENT AGENCIES</p> <p>Policymakers and government agencies have a critical role of fostering innovation, and of creating the policy and regulatory frameworks that incentivize and support the development, commercialization and diffusion of climate technologies. Governments not only fund RD&D, which is the riskiest aspect of technology development, but may also invest in the commercialization stage of climate technologies.</p> <ul style="list-style-type: none"> • Establish climate technology innovation policy frameworks.
Programme priorities	Private sector: Operational modalities	<p>GCF/B.13/32/Rev.01 pp 39-40</p> <p>COP guidance: Also requests the Board of the Green Climate Fund</p>	<p>Proposed input:</p> <p>Invites the Green Climate Fund, pursuant to the action plan for maximizing engagement with the private sector contained in the GCF</p>

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>
		<p>- To accelerate the operationalization of the private sector facility by aiming to ensure that private sector entities and public entities with relevant experience in working with the private sector are accredited in 2015</p> <p>- Expediting action to engage local private sector actors in developing country Parties, including small- and medium-sized enterprises in the least developed countries, small island developing States and African States, emphasizing a country-driven approach, expediting action to mobilize resources at scale, and developing a strategic approach to engaging with the private sector</p> <p>Decision 7/CP.20, paragraph 9</p> <p>GCF action: By decision B.10/11, the Board established two pilot programmes on: (i) funding micro-, small- and medium-sized enterprise activities that are climate sensitive (allocated USD 200 million); and (ii) mobilizing funding at scale (allocated USD 500 million). Work is ongoing to issue requests for proposals for these pilot programmes</p> <p>Maximizing the impact of the GCF by supporting projects and programmes that catalyse climate finance at the international and national levels, including by maximizing private sector engagement is an operational priority of the GCF Strategic Plan. The GCF Strategic Plan lays out an action plan for maximizing engagement with the private sector, which outlines the intention of the GCF:</p> <p>- To analyse barriers to crowding-in and maximizing the engagement of the private sector and subsequently develop a private sector outreach plan; and</p> <p>- To analyse recommendations made by the Private Sector Advisory Group to the Board pertaining inter alia to the need to enhance capacity within the Secretariat to assess the accreditation procedures for private sector entities, to enhance private sector involvement within the readiness programme, and to spell out the ability of the GCF to reduce currency risk.</p>	<p>Strategic Plan, to analyse the roles of (i) public climate finance and (ii) programmes that provide links between project developers and private investors, in catalysing private sector investment to facilitate access to environmentally sound technologies in developing country Parties.</p> <p>Rationale:</p> <p>Joint annual report of the Technology Executive Committee and the Climate Technology Centre and Network for 2015, Key messages for the Conference of the Parties, FCCC/SB/2015/1, para. 58:</p> <p>(c) Public finance for climate technologies should be used efficiently through financial and/or other instruments that share risks, both real and perceived, between public and private actors, to catalyse investments in climate technologies;</p> <p>TEC Brief #6, Enhancing Access to Climate Technology Financing, UNFCCC, November 2015, p 4:</p> <p>Blended climate finance has been successful in catalysing private-sector investment that would otherwise not happen under prevailing market conditions, by compensating for the higher cost of newer and riskier technologies. In blended project finance, investment capital is provided by both private and public investors, usually at concessional terms, with donors taking a subordinate position, thereby filling a gap in capital and mitigating risk...</p> <p>TEC Brief #6, Enhancing Access to Climate Technology Financing, UNFCCC, November 2015, p 6:</p> <p>The lack of bankable projects and the challenge of accessing finance for project and technology developers are being addressed by a range of programmes, including the Seed Capital Assistance Facility, which provides seed financing and technical assistance to early stage VC funds and project developers, and CTI PFAN, which provides mentoring and investment facilitation services to project developers. Such programmes provide critical links between project developers and private investors, build the capacity of project developers and entrepreneurs, and help to</p>

<i>Elements</i>	<i>Sub-elements</i>	<i>Sources of information for accountability</i>	<i>Proposed inputs and rationale</i>
			make projects bankable by giving access to financial advisers who can advise on structuring projects and securing investment.
	Technology Needs Assessment		Explore opportunities, how the CTCN could work closer with the GCF to use the outcomes of the TNAs together with the INDCs to prepare project proposals for GCF.
Eligibility criteria			
Others			