



## About this guide

This guide provides negotiators with a synopsis of the key climate finance discussions undertaken in 2014 under the United Nations Framework Convention on Climate Change (UNFCCC). It aims to inform negotiators and stakeholders who are interested in the different climate finance agenda items and deliverables at the 20th Conference of Parties (COP20) to be held in Lima, Peru. Furthermore, it assesses possible outcomes in Lima that can prepare the way for the new global agreement on climate change, which will be agreed at the COP in Paris in 2015.

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## The status of climate finance at COP 20, Lima

### 1. Introduction

Many UNFCCC stakeholders see climate finance as one of the linchpins holding together the entire climate negotiation process, for several reasons. First, climate finance is key to closing gaps: delivering funds to implement mitigation and adaptation activities is required to ensure the highest possible efforts. For mitigation, this means keeping the planet on a pathway that limits global warming to 2°C or less; for adaptation, this means enabling climate-resilient development. Second, the provision of climate finance fulfils developed countries' financial commitments to developing countries under UNFCCC obligations. Third, some stakeholders maintain that developed countries, which provide the means to implement climate change projects (finance, technology and capacity building) will determine developing countries' level of commitment and buy-in to a new climate deal in 2015.

There is only one year left before the COP in Paris, where the Parties are expected to adopt a protocol – another legal instrument or an agreed outcome with legal force under the UNFCCC – that is applicable to all Parties. There are few political openings left to reassure developing countries that their domestic climate actions will receive commensurate international support. In this context, the COP in Lima is a critical opportunity to provide the necessary predictability, which is currently missing in the negotiations.

This guide maps several finance issues on the agenda of the Conference of the Parties (COP) and the Conference of the Parties serving as the meeting of Parties to the Kyoto Protocol (CMP), by providing information on the state of negotiations on those issues, in order to endow negotiators and other relevant stakeholders with key information to participate actively in the negotiations in Lima.

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## 2. Long-Term Finance

Developing countries need a clear roadmap or predictable pathway regarding the type and scale of climate finance they can expect to receive in the coming years. This will be crucial for planning and prioritising climate change projects and programmes. At COP17, held in Durban in 2011, the Parties decided to undertake a Work Programme on Long-Term Finance in 2012, and extended it in 2013. This programme aimed to make progress towards mobilising US\$100 billion per year by 2020 to support mitigation and adaptation action in developing countries. In Warsaw in December 2013, the COP decided not to further extend the Long Term Finance Work Programme (WP-LTF) but also took a number of important steps forward, based on the findings and outcomes of the two years' work in frame of the WP-LTF.

The decision sent an important signal to developing countries that public climate finance would be sustained and that there would be a stronger focus on adaptation needs. In particular, the Warsaw decision *“urges developed country Parties to maintain continuity of mobilization of public climate finance at increasing levels from the fast-start finance period in line with their joint commitment to the goal of mobilizing USD 100 billion per year by 2020”*.<sup>1</sup> It also calls on *“developed country Parties to channel a substantial share of public climate funds to adaptation activities”*.<sup>2</sup>

COP19 made two other important decisions to ensure developed countries report back to the COP on their progress on implementing these and on the longstanding goal to mobilize US\$ 100 billion a year by 2020. These are:

- Holding high-level ministerial dialogues on finance every two years. These dialogues should help take stock of different streams of work on climate finance under the Convention and make informed decisions to scale up finance and meet the 100 billion mark by 2020. The first high-level ministerial dialogue will take place in Lima.
- Developed countries will provide, every two years, their *“updated strategies and approaches for scaling up climate finance from 2014 to 2020”*. This calls on developed countries to submit all available information

1 Decision 3/CP.19 para 7

2 Decision 3/CP.19 para 8

– qualitative and quantitative – on the expected levels of climate finance. This includes the policies, programmes and priorities; and on information on the balance between mitigation and adaptation. Developed countries are expected to submit these updated strategies and approaches before the COP as these will feed into the ministerial dialogue on finance that will take place in Lima.

COP19 also called on the Secretariat to organise in-session workshops on strategies and approaches to scale up climate finance, cooperation on enhanced enabling environments, and the needs for support of developing countries. COP19 specifies that the workshop report will also inform the biennial high-level ministerial dialogue on climate finance which will be held at COP20 in Lima.

Pieced together, these elements should contribute to a substantive outcome from the high-level ministerial dialogue and help improve predictability of climate finance until 2020.

### **3. Finance under the The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP)**

#### **Finance in the Intended Nationally Determined Contributions (INDCs)**

While the long term finance discussion has been focussed towards the achievement of the collective commitments by developed countries to provide US\$ 100 bn annually by 2020, the discussion on finance under the ADP is relevant for the post-2020 period. Beside issues related to the new agreement, the Lima conference is also expected to deliver a policy outcome on pre-2020 ambition. The relevant decision is expected to reflect the political will for long-term finance, including pledges for the GCF and the Adaptation Fund. The idea to begin a political process to further explore these issues is also under discussion.

At COP19 in Warsaw, parties agreed to work on INDCs and requested the ADP to identify the information parties should provide when putting forward their contributions. These up-front information requirements, their scope and parameters will be a crucial decision for the Lima COP.

At the ADP sessions in June and October 2014, there was increasing disagreement on the scope of these

contributions and whether or not they should or could include finance. In their statements, most developed countries support restricting the scope of INDCs to mitigation. A number of developing countries called on developed countries to include financial provisions in their INDC to help developing countries plan their national contributions accordingly and unlock ambition. Other countries were conscious that “overloading” the INDCs could prove counterproductive and that finance should find a home within the elements of the 2015 agreement to ensure more predictability and stronger commitments. To many observers, the call for including finance in the INDCs is also fuelled by the lack of clarity and space to discuss the financial component of the 2015 agreement and the fear that there are no clear and quantified financial commitments in the 2015 agreement. For financial commitments to be as predictable as possible, both collective and national commitments would be required (i.e. in the INDCs and in the core agreement). In this regard, the Lima COP should work to include finance both in the scope of the INDCs and the scope and elements of the 2015 agreement that is also going to be negotiated in Lima.

#### **Finance in the elements of the 2015 agreement**

Governments are expected to leave COP20 with clear progress in negotiating the elements for the 2015 climate agreement under the ADP Workstream 1. The agreement is supposed to come into effect no later than 2020. The key basis for this will be the new non-paper released by the ADP Co-Chairs on 11 November.<sup>3</sup> While nothing of this text is yet agreed, the Co-Chairs try to distinguish their understanding of areas of convergence and divergence by explicitly contrasting different options where they identify clear divergence.

<sup>3</sup> [http://unfccc.int/documentation/documents/advanced\\_search/items/3594.php?rec=j&priref=600008139#beg](http://unfccc.int/documentation/documents/advanced_search/items/3594.php?rec=j&priref=600008139#beg)



## Box 1. Looking at finance in the non-paper published by ADP Co-Chairs on November 11th

### Commitments/contributions by all Parties to mobilise climate finance (paras 31-33)

The non-paper suggests a commitment from all Parties to mobilise climate finance through a number of actions as a means to stay below the long-term temperature limit (2/1.5 degrees). It also links this commitment to the respective and evolving responsibilities and capabilities, with the acknowledgement that certain Parties need support in order to take action. It furthermore contains a list of general purposes which the finance should pursue. These include encouraging low-emissions growth, supporting the integration of climate objectives into other policies, and the delivery of adequate finance for adaptation (para 31.1).

The non-paper distinguishes a number of potential characteristics of the mobilisation of finance, such as prioritisation (e.g. for adaptation for the most vulnerable countries), the process of determining the finance (e.g. through an ex-ante process to commit to quantified support in relation to adaptation and mitigation goals) and potential criteria (e.g. for the finance to be new, additional and adequate). The non-paper outlines options without taking positions on issues. As such, the sections which look at finance outline options which can be contradictory) (para 31.2).

Two options of identifying the scale and responsibilities of commitments/contributions are discussed. Option 1 looks at quantified commitments/contributions based on a burden sharing formula as to assess the due contribution by each individual country based on the US\$ 100 bn per year as a floor. Option 2 suggests not to have quantified commitments in the post-2020 period.

Two options are also presented relating to the role of enhancing enabling environments as a commitment by all Parties. Option 1 aims to establish such commitments, while Option 2 suggests not to specify such a commitment or obligation (para 33).

### Sources from which financial resources shall be mobilised (paras 34-40)

The non-paper presents contrasting options with regard to sources from which financial resources shall be mobilised (para 34). Some parties favour a focus on public finance complemented by other sources (Option 1). Option 2, on the other hand, refers to a wider approach of a variety of sources. Para 34.1 can to some extent be regarded as a further elaboration of Option 2 speaking to various sources of means to mobilise private and alternative finance (e.g. developing countries to incentivise the

private sector, a mechanism to attract private sector finance, public-private partnerships, phasing-down of high-carbon investments and fossil fuel subsidies, a bond facility for renewable energies and energy efficiency etc.).

Para 35 speaks specifically to financing of adaptation through multilateral or bilateral finance. It lists a number of issues related to the balance between mitigation and adaptation finance, such as the use of funding from market mechanisms, financial risk instruments, the role of different funds such as the Adaptation Fund (AF) or the LDCF<sup>4</sup>/SCCF<sup>5</sup>. Para 35.5 puts public finance in the centre, while recognising the role of private sources, and includes an encouragement to ICAO and IMO to develop a scheme for raising revenues from international transport in support of the Adaptation Fund.

Para 36 requests specific finance for the Warsaw International Mechanism on Loss and Damage. The rest of this section speaks to finance for technology development and transfer, capacity-building and REDD-plus.

### Institutional arrangements (paras 41-43)

This section reflects a general understanding that post-2020 finance should build on the existing architecture and the financial mechanism of the Convention. It discusses the emerging issue of potentially simplifying and rationalising the complex architecture. It suggests delegating the authority for specific decisions to the COP. One bullet point suggests linking the overall replenishments of the financial mechanism, which currently only exists in a fragmented manner, to the IPCC scientific assessments (para 41).

Para 41.1 underlines the central role of the Green Climate Fund in the future architecture (including a proposal for the establishment of a REDD-plus window and/or a loss and damage window). This para also contains specific proposals for sourcing the GCF, ranging from a general reference to public sources as the main funding source to a call to developed countries to provide 1% of their GDP to the GCF from 2020 onwards.

Para 42 relates to other funding mechanisms, some of which are not yet formally part of the Convention's financial mechanism, in particular the Adaptation Fund (anchoring it specifically in the future architecture), and the LDCF as a means to finance adaptation in LDCs. It also refers to the proposal to establish specific REDD-plus institutional arrangements.

4 Least Developed Countries Fund

5 Special Climate Change Fund

## 4. Standing Committee on Finance<sup>6</sup>

At COP16, the Parties decided to establish a Standing Committee (Decision 1/CP.16, paragraph 112), which was later renamed the Standing Committee on Finance (SCF) and supports the COP in relation to the financial mechanism of the UNFCCC. This includes *“improving coherence and coordination in the delivery of climate change financing, rationalisation of the financial mechanism, mobilisation of financial resources and measurement, reporting and verification of support provided to developing country Parties.”* In Durban, the Parties specified the Committees tasks (Decision 1/CP.17 para 121) as follows:

- The organisation of a forum for communication and the continued exchange of information among bodies and entities dealing with climate change finance
- Maintaining links with the Subsidiary Body and the thematic bodies of the UNFCCC
- The provision of draft guidance to the operating entities of the financial mechanisms
- The provision of expert input into the preparation and conduct of the periodic reviews of the financial mechanism
- Biennial Assessment and overview of climate finance flow

The SCF is meant to provide expert technical inputs on elements that are been dealt from a more political angle by the COP. However, as the issues addressed by the SCF are not agreed as such by the Parties, its recommendations forwarded to the COP need to be decided and endorsed by the Parties themselves.

In 2014, the SCF met three times in Bonn and deliberated on different issues as outlined in its work plan as well as addressed specific requests by the last COP.

### Biennial Assessment and Overview of Climate Finance Flow

This agenda item will be discussed when the report of the SCF is presented to the COP in Lima. One of the SCF's assigned functions is the measurement, reporting and

verification (MRV) of the support provided from developed countries to developing country Parties through activities including the preparation of the Biennial Assessment and Overview of Climate Finance Flows (BA)(1/CP.17 para 121).

The Biennial Assessment (BA) process was decided in Durban (2/CP.17 para 121(f)). Its goal is to provide the COP with existing information on financial flows against the background of the objectives of the Convention. It also has a number of secondary purposes such as: contributing to the work on transparency of the Ad Hoc Working Group on the Durban Platform (ADP); identifying methodological issues, data gaps, and potential for future research; and establishing a framework that can serve as a basis for future reports. Lastly, the outcomes of the BA are meant to include recommendations for improvements in the MRV system both inside and outside of the scope of the Convention. The BA's scope was gradually extended at subsequent COPs in Doha and Warsaw: to include information on relevant work by other bodies and entities on the MRV of support and the tracking of climate finance (decision 1/CP.18 para 71); to include information on how to strengthen methodologies for reporting climate finance (Decision 5/CP.18 para 11); to work on operational definitions of climate finance, including private finance mobilized by public interventions, to assess how adaptation and mitigation needs can most effectively be met by climate finance (Decision 3/CP.19, para. 11).<sup>7</sup> See below the 4 research tracks that structured the SCF's work:

- **Research track I:** Review of existing definitions of climate finance and methodologies used to measure, report, and verify different types of flow.
- **Research track II:** Collection of data sets from literature reviews and any other relevant quantitative and qualitative information for the overview section.
- **Research track III:** Support of the working group to develop the assessment section by compiling assessment criteria that is used by different organizations (including those found in the responses to the second call from the SCF for input).
- **Research track IV:** Review of short- and long-term needs of developing countries and assisting the

<sup>6</sup> Official documents of the Standing Committee can be found at: [http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/items/6877.php](http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/6877.php)

<sup>7</sup> In Warsaw, the COP took note of the information provided by the Standing Committee on Finance on the work plan for the BA and overview of climate finance flows to be conducted in 2014 (Decision 7/CP.19 para 8).



working group assess how adaptation and mitigation needs can most effectively be met by climate finance.

The BA report contains three main chapters:

1. Methodological issues relating to measurement, reporting, and verification of public and private climate finance consisting of three areas: definitional issues, reporting approaches, and monitoring approaches. It further examines tracking and reporting systems that are used to collect and aggregate the underlying data and the characteristics of the associated operational definitions of climate finance. It also provides a tentative definition of climate finance.
2. Overview of current climate finance flows: global total climate flows; flows from developed to developing countries; public flows to developing countries; multilateral and bilateral flows to developing countries; and private finance flows to developing countries.
3. Assessing the state of current climate finance flows: scale of current climate finance flows, global total climate finance flows, instruments of finance, thematic distribution of finance, geographic distribution of finance, key issues that require further consideration, effectiveness, impact, and ownership.

The paper defines climate finance as finance *“which aims to reduce emissions and enhance sinks of greenhouse gases and that aims to reduce vulnerability of, and to [maintain/] enhance the resilience of human and ecological systems to climate change impacts.”* This definition is not a final proposal; rather, it could serve as basis for discussion among Parties in regard to a common understanding of climate finance under the Convention. The SCF now needs a specific request by the COP to work further on the definition.

Moreover, the report acknowledges progress made over past years by stakeholders and their understanding of climate finance flows in the methodologies for aggregating and the provision of information, particularly regarding public climate finance. It also refers to the efforts by MDBs, IFIs, OECD, and think tanks. Additionally, the report encourages the relevant stakeholders and institutions to continue updating the financial flows and the processes for generating information, which will provide more clarity on climate finance in the coming years.

The SCF highlights the following for consideration by the Conference of Parties to the Convention:

**1. In terms of enhancing the provision of information on climate finance:**

- a. Inviting the SBSTA to consider the findings of the BA relating to reporting climate finance in the Convention and encourages developing countries to provide information on their experiences, particularly regarding their institutional and procedural needs as well as the monitoring and reporting support they received;
- b. Supporting developing countries in improving their institutional arrangements, procedures, and systems to monitor and implement climate finance;

**2. In regard to collaboration with international financial institutions and international organizations:**

- a. Developing options to harmonize methodologies for reporting climate finance data both within the SCF and in cooperation with relevant stakeholders and institutions;
- b. Requesting the SCF to cooperate with the OECD, developing country experts, and experts from the business community to devise practical options for annually estimating and collecting data on private sector climate finance (taking into consideration the results of the Research Collaborative on Private Finance.)

**3. In order to address the information gap, the executive summary encourages the consideration of the following elements:**

- a. A study of south-south flows to determine a more comprehensive picture of climate finance;
- b. Assessment of different instruments used to mobilize climate finance in developed and developing countries;
- c. Identification of options to improve estimates of domestic public finance such as the CPEIR;
- d. Deeper analysis of the effectiveness of climate finance;

- e. Assessment of the experience of different institutions in mobilizing and tracking private finance;
- f. Development of recommendations to COP on a more operational definition of climate finance;
- g. Improve estimates of adaptation finance and assess current institutional arrangements for providing support for adaptation.

### **Fifth Review of the Financial Mechanism**

Every four years, the UNFCCC Financial Mechanism is reviewed to reassess its conformity with Article 11 of the UNFCCC and the effectiveness of the activities it funds in providing resources to developing countries.

The Fifth Review of the Financial Mechanism was initiated in Doha in 2012 and is set to conclude by COP20 this year in Lima. The SCF was requested to further amend the guidelines for the review, also considering submissions made by Parties on the matter. In Warsaw, the COP adopted these guidelines and requested the SCF continue providing expert input to the Fifth Review.<sup>8</sup>

During the meetings of the SCF this year, members considered and discussed the content and summary of a draft technical paper that was prepared by the UNFCCC secretariat to inform the discussions of the Committee, and which will serve as the requested expert input that will be forwarded to the COP. This technical paper includes conclusions and recommendations elaborated by the Standing Committee, based on the guidelines that have been agreed on by COP19 in Warsaw. Accordingly, the effectiveness of the Financial Mechanism, and at that the effectiveness of its operating entities (GEF and GCF), was assessed taking into account, for instance, the transparency of decision-making processes of the operating entities and the level of stakeholder involvement. Furthermore, the technical paper addresses issues such as the adequacy, predictability, accessibility of finance provided to developing countries; the timely disbursement of those funds; or the extent to which the resources provided are contributed to achieving the objectives of the UNFCCC - just to name a few.<sup>9</sup>

In general, it has proven particularly difficult to review the entire Financial Mechanism, as one of its designated operating entities (the GCF) is still in the process of concluding its operationalization. Hence, the SCF refrained from recommendations regarding the GCF that would in any way have implications on or pre-empt decisions still needed to be taken by the GCF Board, whose last Board meeting was planned some weeks after the SCF meeting. However, the SCF has also identified common areas where general recommendations could already be provided. These include - above all - the increased need of both operating entities to strive to achieve the maximum level of coherence and coordination of their activities and policies, for instance, in the context of aiming for more comparable accreditation and access modalities, to reduce the challenges imposed on developing countries, which have to navigate both systems to apply for funding.

The COP in Lima will need to carefully reflect and consider the expert input provided by the Standing Committee, in order to make an informed decision on the matter.

### **MRV of support beyond the Biennial Assessment and overview of financial flows**

Measurement Reporting and Verification (MRV) of support is one of the contentious issues surrounding the overall climate finance debate. Currently, there are different streams of work inside and outside the Convention dealing with MRV. Under the Convention, a number of bodies have been working to address different issues related to reporting on the support provided.

Under the Subsidiary Body for Scientific and Technological Advice (SBSTA), Parties initiated discussion on methodologies for reporting financial information by Parties included in Annex I of the Convention. The SBSTA requested that the Secretariat compiles information reflecting the discussion of the SBI and SCF and posts it on the UNFCCC's website as a background document before the SBSTA 41 in Lima. Based on the background document, the SBSTA will be invited to consider the issue in Lima, with an overall intention of recommending a draft decision to COP20.<sup>10</sup>

One of the functions of the SCF is to assist the COP exercise its role with regard to MRV of support provided by developed countries to developing countries (decision

<sup>8</sup> See paragraph 3 of decision 8/CP.19 at <http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf>

<sup>9</sup> See section 'C' of the annex to decision 8/CP.19

<sup>10</sup> FCCC/SBSTA/2014/2; more information available at: <http://www.unfccc.int/2807> or FCCC/SBSTA/2014/L.1



1/CP.16, para 112). To fulfil this task, the SCF has established a working group to deal with the issue of MRV of support provided. It also mandated the co-chairs of the Biennial Assessment (BA) to consider issues related to MRV in conducting the BA and identify additional areas that need to be considered for MRV in 2015. In Lima, it is expected that as the Parties adopt the SCF report, they will specifically mandate the SCF to enhance its work on MRV in 2015. This mandate will provide more specifics which should frame the scope of the MRV work.

### Coherence and coordination: the issue of financing for forests

Climate change financing in support of developing countries has been so far fragmented, and there is consensus on a need to improve the coherence of the overall regime.<sup>11</sup> Article 11.5 of the Convention recognizes that, aside from the operating entities of the Convention, climate financing may also be delivered through bilateral, regional, and other multilateral channels. Parties decided there should be consistency between activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism and the policies, programme priorities, and eligibility criteria for activities as relevant, established by the COP.

Against this background, the SCF was created to improve climate finance delivery through improved coherence of the funding stream as well as through coordination of the existing fragmented funding patterns.

The SCF was tasked in particular with work on streamlining forest financing which is perceived to be very fragmented. A number of multilateral financing institutions outside of the Convention and/or bilateral donors support the financing needs of developing countries in relation to REDD-plus. In addition, there are few common standards and a lack of balanced allocation guidelines.<sup>12</sup> Furthermore, each channel implies different requirements, processes, and standards for results-based payments for REDD-plus. Overall, this has caused uncoordinated support for the implementation of REDD-plus and has also led to

11 Khan, F. and Müller, B. (2011): What Functions? What Form? Operationalizing the Standing Committee. See <http://www.oxfordclimatepolicy.org/publications/documents/OperationalizingtheStanding.pdf>

12 Document FCCC/CP/2013/5, paragraph 41

the inequitable allocation of funds.<sup>13</sup> Addressing these barriers will require all Parties to work collaboratively to ensure that finance provided for REDD under and outside the Convention follows the same methodologies and approach so that forest management benefits can be maximized. Also, the landscape of financing for forests is not only confined to the Financial Mechanism and its operating entities, but it also involves a vast amount of other stakeholders and entities dealing with climate finance outside the FM of the Convention.

In accord with the mandate issued in Warsaw, the SCF has started its work on coherence and coordination, inter alia, the issue of finance for forests, taking into account different policy approaches (Decision 7/CP.19, para. 11). A background paper on coherence and coordination was prepared<sup>14</sup> and outlines the range of different activities and financial flows for forest finance.

The SCF working group on coherence and coordination came to the conclusion that the COP should encourage the GCF to support financing for the two phases of REDD-plus<sup>15</sup> and that the GCF should be requested to consider a specific window for REDD-plus.<sup>16</sup>

### SCF Forum

According to its functions, the SCF is in charge of organizing a forum for the communication and continued exchange of information among bodies and entities dealing with climate change finance in order to promote linkages and coherence (Decision 2/CP.17 para 121(a)). The second forum of the SCF took place in June for two days<sup>17</sup> at the Montego Bay Convention Centre in Montego Bay, Jamaica. The theme was “Mobilizing adaptation finance” and aimed to promote the mobilization of adaptation finance through the sharing of experiences, best practices, and innovative ideas. At the COP in Warsaw, Parties requested the SCF (Decision 9/CP.19, para 20-21) to focus its next possible forum on issues related to finance for forests, including ways and means to transfer payments for results-based actions as referred to in decision 1/CP.18, paragraph 29;

13 Ibid, paragraph 28

14 Ibid p.1

15 Document FCCC/CP/2013/5, paragraph 22

16 See Document FCCC/CP/2013/5, paragraph 22 or Document FCCC/TP/2012/3, Table 1

17 The first day focused on national-level adaptation finance options, and the second day focused on mobilizing finance in specific sectors.



and the provision of financial resources for alternative approaches.<sup>18</sup> For this forum, the SCF intends to bring targeted audiences together by including Convention and non-Convention actors. The COP 18 guidance also encourages the engagement of the private sector, financial institutions, and academia.

### Guidance to the Operating Entities of the Financial Mechanism

The SCF is also in charge of developing annual draft guidance for the operating entities (OEs) of the Financial Mechanism (FM) of the Convention to the COP. The guidance is related to inter alia: program priorities and eligibility criteria and reconsideration funding decision (article 11, 3 (a-d)). The guidance is meant to ensure that the OEs are fully accountable to the COP.

The SCF, in assisting the COP with regard to guidance to the OE, pursues an approach that aims to improve the consistency and practicality of such guidance by taking into account the annual reports of the OEs as well as submissions from Parties and Committee members on the report of the OE.

In the course of this year, the SCF considered two documents, which contained various proposals and options to improve the draft guidance to the OEs of the Financial Mechanism, as well as options for the procedural approach to the provision of draft guidance in advance of COP 20.<sup>19</sup> Accordingly, the options on how to improve guidance to the OE of the FM includes exploring ways to update existing guideline and organizing them with the goal of avoiding redundancy, incoherence, and consistency as set of “*core guidance*.” The core guidance will be provided each year to the OEs. In addition, the SCF also intends to formulate additional “*performance based guidance*” that is specific to each of the OEs (the GEF and GCF) and consistent with performance indicators developed by the OEs. At the last COP, these guidelines were put in a specific template, which was used to provide guidance around the elements include in Article 11 of the Convention dealing with the Financial Mechanism.

18 See [http://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/scf\\_8\\_background\\_paper\\_2015\\_forum.pdf](http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/scf_8_background_paper_2015_forum.pdf)

19 See Document SCF/2014/7/6 and [http://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/revised\\_initial\\_paper\\_on\\_improving\\_draft\\_guidance\\_to\\_oes\\_%282%29.pdf](http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/revised_initial_paper_on_improving_draft_guidance_to_oes_%282%29.pdf)

The guidance to the GEF will be based on its regular report to the COP, from which Parties, as well as members of the Committee, will provide submission on potential guidance. The guidance to the GCF is more challenging as due to calendar clashes, it was not possible for the SCF to provide any draft guidance due to the lack of information. However, the draft guidance by the SCF will contain a table with guidance provided by previous COPs to the GCF, as well as decisions taken by the GCF Board in response to COP guidance up until the seventh meeting of the GCF Board.

## 5. Climate finance funds under the Convention and the Kyoto Protocol

### Green Climate Fund<sup>20</sup>

The year 2014 has seen the Green Climate Fund progress further towards its concluding operationalization, with three meetings being held in Bali, South Korea and Barbados. During these meetings, the GCF Board focussed its work primarily on agreeing on eight “*essential requirements*”, identified as necessary for the Fund to receive, manage, programme and disburse financial resources<sup>21</sup>, as well as commencing its initial resource mobilization process.

### Eight Essential Requirements

Following the meetings in Bali and South Korea, the GCF Board approved all eight essential requirements that - in principle - make the Green Climate Fund ready to start with programming and disbursement. The eight essential requirements are:

1. The **Guiding Framework for Accreditation** was adopted at the 7th Board Meeting in South Korea and comprises policies and provisions for the accreditation of national, regional and international implementing entities and intermediaries that wish to access resources of the GCF in order to implement projects and programmes on the ground. It also defines the fiduciary standards required to achieve accreditation and the respective Environmental and Social Safeguards that have to be applied throughout project and programme implementation.

20 Official documents of the Green Climate Fund can be found at: <http://www.gcfund.org/documents/in-session-documents.html>

21 See Annex XXII of document GCF/B.05/23: “Decisions of the 5th Meeting of the GCF Board, 8-10 October 2013”



2. The **Initial Proposal Approval Process** determines the modalities to be considered and necessary steps to be undertaken by applicants, from concept elaboration and project development to eventual consideration by the GCF Board for approval. The process for the post-approval phase (i.e. the actual implementation) will be developed by the GCF secretariat with the view of reaching a decision at the first Board meeting in 2015.
  3. The **Initial Results Management Framework** of the GCF provides the foundation for assessing results achieved through GCF-funded activities. Therefore, the framework defines logic models for both mitigation and adaptation, together with a range of core indicators that will be applied.
  4. At its 7th meeting the GCF Board also agreed on the Fund's **Financial Risk Management and Investment Framework**. The focus of the Initial Financial Risk Management Framework is on the financial risk environment that the Fund will encounter in its operations, including its risk monitoring, management and reporting systems that are needed. The Investment Framework provides the guidelines for the Fund's investments, i.e. which type of projects and programmes are funded or according to which criteria project proposals are assessed and evaluated.
  5. **Structure of the Fund.** It was agreed by the Board that the Fund will have a Risk Management Committee, an Investment Committee, an Ethics and Audit Committee, a Private Sector Advisory Group, and a Board Team on Accreditation. The Board also agreed that the composition of the Green Climate Fund secretariat will consist of the Executive Director, a Country Programming Director/Deputy Executive Director, a Mitigation/Adaptation Director, a Private Sector Facility Director, External Affairs Director and Operational Support Services Director. The respective positions have been partially filled following a comprehensive recruitment process after the 7th Board meeting in South Korea.
  6. **Initial modalities for the operation of the Fund's Mitigation and Adaptation windows and its Private Sector Facility.** Initially, the Governing Instrument has given direction on the initial windows that will be available, which are windows for mitigation and adaptation. But the Governing Instrument also provides for a dedicated Private Sector Facility that will directly or indirectly finance private sectors' mitigation and adaptation facilities at all levels. At the 7th Board Meeting, various Board members had raised their concerns regarding the Private Sector Facility, as there were so many uncertainties, for instance how PSF will operate. Further, members of the Board raised questions on how to operationalize the PSF in order to conclude that the eight essential requirements are met, especially on how to make sure that the approval process is in compliance with the PSF-related decisions on allocation.
  7. **The terms of reference for several accountability mechanisms, such as the Independent Evaluation Unit, the Independent Integrity Unit, and the Independent redress mechanism.** The Governing Instrument provides for the establishment of certain accountability mechanisms, in order to allow periodic evaluation of the performance of the Fund and to provide an objective assessment of the results of the Fund, including its funded activities and its effectiveness and efficiency. In light of this, following the provisions of the Governing Instrument, the Board established an Independent Integrity Unit to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities; an Independent Evaluation Unit for purposes of periodic reviews; and an Independent Redress Mechanism which will receive complaints related to the operation of the Fund.
  8. **Policies and procedures for the initial allocation of Fund resources.** At the 6th GCF Board Meeting held in Bali, it was agreed that the allocation of resources between adaptation and mitigation will be 50:50, and that 50% of the total funds secured for adaptation will be available for the most vulnerable countries, namely Small Island Developing States, Least Developed Countries and African States.
- In the last meeting of the GCF, it was also decided to cap US\$ 1 million per calendar year to individual developing countries, for readiness and preparatory support. The Board also agreed that all developing countries will have access to readiness support, aiming for a 50% floor of the readiness support allocation to particularly vulnerable countries. Around US\$ 15 million will be made available for the execution of the readiness and preparatory support programme.

### **Guiding Framework for Accreditation**

Building on its successful 7th meeting in May 2014, where the GCF achieved its target of operationalizing eight requirements necessary to open for business and receive donor pledges, the GCF Board made further progress towards concluding the Fund's operationalization by taking important decisions at its 8th meeting in October 2014. This included, a set of decisions in regard to the Fund's guiding framework and principles for accrediting national, regional and international implementing entities and intermediaries.

In terms of accreditation, the GCF differentiates between 'implementing entities' and 'intermediaries'. The latter characterises institutions that have the ability to process concessional loans and blend them for climate protection projects. For this, at its 7th meeting, the GCF adopted initial fiduciary principles and standards that distinguish between 'basic' and 'specialised' fiduciary standards. While 'implementing entities' will have to meet the 'basic' fiduciary standards in order to receive accreditation, an 'intermediary' will have to fulfil both sets of principles. That said, the 'basic' fiduciary standards and guidelines are very similar to those of the AF.

Besides fiduciary standards, the GCF also agreed on Environmental and Social Safeguards (ESS), which implementing entities and intermediaries must be able to apply throughout project implementation, in order to mitigate negative side-effects of GCF-funded interventions. At its 7th meeting, the GCF Board decided to apply ESS in the form of the International Finance Cooperation (IFC) Environmental and Social Performance Standards, on an interim basis, with the aim of developing the Fund's own standards within a period of three years once the Fund is operational.

The GCF allows countries to access the fund either through accredited national, regional or sub-national entities. Alternatively, countries may opt for accredited international organisations – such as UN agencies, multilateral development banks and other institutions.

At its 8th meeting, the GCF worked out the details of a 'fit-for-purpose' approach regarding the accreditation of implementing entities and intermediaries. This approach was agreed at the 7th meeting and recognizes the role of a wide range of entities, and their differences in the scope and nature of their activities and capacities. At that, it intends to accommodate this diversity by matching

the nature, scale and risk of intended activities to the application of fiduciary standards and environmental and social safeguards. In particular, such an approach is intended to make it easier for smaller institutions from developing countries to gain accreditation, while maintaining the integrity of the Fund's fiduciary standards and ESS.

In order to commence programming and disbursement of funds in a timely manner, the GCF decided that entities that are already accredited by other relevant funds or institutions, namely the AF, GEF and EU DEVCO, are eligible for the GCF's fast-track accreditation process provided additional policies and rules are in place. This means, the accreditation process will focus on the identified gaps for each of the funds.<sup>22</sup>

### **Country Ownership and Enhanced Direct Access**

The question of operationalizing enhanced direct access, as enshrined in the Governing Instrument of the GCF, has also been addressed by the Board at its recent meeting. Accordingly, the GCF Secretariat was requested by the GCF Board to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access, which will include relevant readiness support if requested by subnational, national and regional entities, for approval by the Board at its 9th meeting. Inter alia, these terms of reference will specify objective, activities to be undertaken, timeframe and financial volume of the pilot phase.<sup>23</sup> National liaison and communication with the GCF Board takes place through National Designated Authorities (NDAs), which should ensure coherence with existing planning and national visions. In line with this, the GCF at its 8th meeting decided that the Board will only consider funding proposals that are submitted with a formal letter of "no-objection". The GCF Secretariat issued a call for NDAs and 70 countries have so far assigned a national focal point.<sup>24</sup>

### **Initial Resource Mobilization Process**

Following the 7th Board meeting, the GCF started its initial resource mobilization process. Scheduled meetings of donor countries took place in June/July and September

<sup>22</sup> Decision B.08/03

<sup>23</sup> Decision B.08/09

<sup>24</sup> As of 21 November 2014. See GCF (2014): "Green Climate Fund NDA and Focal Point Designations" at [http://www.gcfund.org/fileadmin/00\\_customer/documents/Readiness/2014-11-21\\_Website\\_NDA\\_designation\\_list.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/Readiness/2014-11-21_Website_NDA_designation_list.pdf)



where policies for contributions were elaborated and developed, which were also adopted by the GCF Board at its recent meeting.

A pledging conference that took place in Berlin on 19-20 November 2014 yielded US\$ 9.3 bn from 22 donors, including the USA, Japan, UK, Germany, France, Sweden, Denmark, Norway, Switzerland, Luxembourg, the Czech Republic, the Netherlands, Spain, Italy, Finland, Monaco and New Zealand. Canada followed just days after the conference, also announcing a contribution to the Fund. Remarkably, some developing countries - Mexico, Indonesia, South Korea, Panama and Mongolia - have also pledged to contribute to the GCF.

The amount pledged so far is an important step and political signal in the forefront of COP20, where countries that have not yet announced their contribution to the GCF are expected to do so. Among country representatives and stakeholders there is an expectation that the GCF will be equipped with initial resources to the tune of US\$ 10 bn by the end of the year. Civil society is calling for US\$ 15 bn.

### Adaptation Fund<sup>25</sup>

The Adaptation Fund, formally established under the Kyoto Protocol in 2001, has been promoting concrete adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change since its official operationalization in 2010. Since its inception, the Adaptation Fund has received considerable attention from developing countries because of its distinctive features. These comprise, on the one hand, its unique form of capitalization, which includes a 2% levy on the proceeds (Certified Emission Reductions) of the Clean Development Mechanism, in addition to traditional contributions by developed countries. On the other hand, the Adaptation Fund is a pioneer in terms of its access modalities, being the first financial institution providing direct access to its resources to the countries' own National Implementing Entities. Further, the Adaptation Fund features a North-South balanced governance system, where the majority of its Board members come from developing countries.

Since coming into operation in 2010, the Adaptation Fund has accredited 32 Implementing Entities (including 17 National Implementing Entities) that are implementing

<sup>25</sup> Official documents of the Adaptation Fund can be found at: <https://www.adaptation-fund.org/documents>

41 adaptation projects in developing countries. Despite these achievements, the Adaptation Fund is facing serious financial constraints due to low current carbon prices: total revenues from sales of Certified Emission Reductions dropped from US\$100 million in 2010 to a mere US\$1.8 million in 2013. This is due to the oversupplied market for Certified Emission Reductions as well as a lack of ambition. Projections based on the current market price of on average US\$0.19 per tonne estimate the sales revenue will provide just US\$2-3 million by the end of 2015.<sup>26</sup> These financial constraints mean the Adaptation Fund is increasingly dependent from contributions from developed countries to maintain its work.<sup>27</sup> Hence, the Fund's Board has again formulated a fundraising target, with the goal of raising US\$80 million by the end of 2014. Last year in Warsaw, Parties met the Fund's target of then US\$100 million. However, in light of the increased attention given to the continuing resource mobilization process of the GCF, it remains unclear if the Fund will be able to achieve its objectives at present. Therefore, the Adaptation Fund will be an important discussion point in Lima.

### Second Review of the Adaptation Fund

At COP20/CMP10 the Fund will present its official report to the CMP, which covers the activities undertaken by the Adaptation Fund, its Board and Secretariat since Warsaw. In addition to the report, Lima will also feature the conclusion of the Second Review of the Adaptation Fund, which constitutes in a review of all matters relating to the Adaptation Fund, with a view to ensuring the effectiveness and adequacy of the institutional arrangements of the Fund.<sup>28</sup> The review was initiated by the SBI after CMP8 and is set to be finalized this year. These comprise, inter alia, the scope of the review, which will also focus on the issue of ensuring *"the provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams"*<sup>29</sup> for the Fund. The SBI will complete its consideration of the review at SBI 41

<sup>26</sup> AF (2014). See "Adaptation Fund Trust Fund: Financial Report by the Trustee" at [https://www.adaptation-fund.org/sites/default/files/AFB\\_EFC\\_15.6\\_AF\\_Trustee\\_Report\\_at\\_June\\_30\\_2014\\_\(w\\_cover\\_page\).pdf](https://www.adaptation-fund.org/sites/default/files/AFB_EFC_15.6_AF_Trustee_Report_at_June_30_2014_(w_cover_page).pdf)

<sup>27</sup> In fact, total donations from developed countries have surpassed the total revenue from CER monetization by now (US\$213.7 to US\$190.4). See "Trustee Presentation: Update on Status of Resources and CER Monetization" at [https://www.adaptation-fund.org/sites/default/files/Trustee\\_Financial\\_Status\\_Presentation\\_Oct\\_2014-final.pdf](https://www.adaptation-fund.org/sites/default/files/Trustee_Financial_Status_Presentation_Oct_2014-final.pdf)

<sup>28</sup> See paragraph 33 of decision 1/CMP.3 at <http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf>

<sup>29</sup> See the annex of decision 2/CMP.9 at <http://unfccc.int/resource/docs/2013/cmp9/eng/09a01.pdf>

in Lima, before recommending a draft decision on this matter for consideration and adoption in Lima.

### Guidance to the Global Environment Facility

The Global Environment Facility (GEF) provides grants to developing countries and countries with economies in transition for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. These projects should benefit the global environment, linking local, national and global environmental challenges and promoting sustainable livelihoods. Through Article 21.3 of the Convention, the GEF was mandated to serve as an operating entity of the financial mechanism defined through Article 11. Besides maintaining its own Trust Fund, the GEF also administers the Least Developed Countries Fund and the Special Climate Change Fund, which were established by the Conference of the Parties (COP) to the UNFCCC.

According to decision 12/CP.2 the GEF will make available to the COP, annual reports and other official public documentation on the implementation of COP guidance to the GEF. Hence, GEF, as an operating entity of the Financial Mechanism of the Convention will report to the Conference of the Parties on its work and the steps taken to implement the guidance provided in Decision 6/CP.19.

The COP in its decisions 6/CP.19 requested the GEF to clarify the concept of co-financing and its application in the projects and programs of the GEF. In its response to the report the report, GEF mentions that its Secretariat has, in consultation with the GEF Agencies, developed a proposal for a new co-financing policy with a clearer definition of co-financing, which was approved by the GEF Council at its meeting.

The Warsaw decisions providing guidance to the GEF called upon developed country Parties, and invited other Parties that make voluntary financial contributions to the GEF, to ensure a robust sixth replenishment in order to assist in providing adequate and predictable funding. In its report<sup>30</sup> to the COP, GEF mentions that the fourth and final meeting of the replenishment process was held in April 2014, at which donor pledges were finalized, with a total of US\$4.43 billion. The report also mentions that GEF has agreed on the need to provide more resources to Small

Island Developing States (SIDS) and the Least Developed Countries (LDCs) in line with the recent guidance from the conventions to in order to enable them to address their urgent needs and to comply with their obligations under the Convention.

Similarly, as per the guidance, GEF also includes information on the steps it has taken to enable activities for the preparation of the National Adaptation Plan process in developing country Parties that are not least developed country Parties, as per decision 9/CP.18, paragraph 1(c). The report mentions that the LDCF/SCCF Council approved an SCCF grant amounting to \$4.93 million towards the FSP 'Global: Assisting Non-LDC Developing Countries with Country-driven Processes to Advance National Adaptation Plans (NAPs)'. The program seeks to strengthen institutional and technical capacities to allow non-LDC developing countries to integrate CCA into their medium- and long-term development planning processes in a continuous, progressive and iterative manner.

It also informs the implementation of country-driven projects identified in the technology needs assessments prepared by developing country Parties by stating that the GEF Secretariat systematically checks whether the project proposals are consistent with the results of the TNAs prepared by developing country Parties, if these existed.

### Guidance to the Least Developed Countries Fund

The Least Developed Countries Fund (LDCF) was established to support a work programme to assist Least Developed Country Parties (LDCs) in carrying out, inter alia, the preparation and implementation of National Adaptation Programmes of Action (NAPAs). The GEF, as an entity that operates the financial mechanism, has been entrusted to operate this Fund through decision 27/CP.7.<sup>31</sup>

Doha Decisions (COP18) requested the GEF to continue to support all activities contained in the LDC work programme and mobilize resources to ensure the full implementation of the LDC work programme, including the implementation of the elements of the work programme other than NAPAs, through, inter alia, capacity-building to improve coordination at different levels of government and across sectors in order to improve project performance in the LDCs, with regard to

30 See <http://unfccc.int/resource/docs/2014/cop20/eng/02.pdf>, p.7

31 See [http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/least\\_developed\\_country\\_fund/items/4723.php](http://unfccc.int/cooperation_and_support/financial_mechanism/least_developed_country_fund/items/4723.php)



the implementation of the Convention. It also requested to further enhance a country-driven process for the implementation of NAPA projects and the implementation of programmatic approaches<sup>32</sup>.

The GEF was asked to prepare a synthesis report on the progress made in the implementation of the remaining elements of the LDC work programme. The SBI was also requested to consider, at its 41st session, the progress made in the implementation of the remaining elements of the LDC work programme, including the updating and implementation of NAPA, with a view for COP 20 to provide appropriate further guidance to the LDCF.<sup>33</sup>

The GEF, in its report<sup>34</sup> to the COP, mentions that since the LDCF was established, 48 countries have submitted 146 NAPA implementation projects and programs. LDCF support for approved adaptation projects and programs currently totals \$823.95 million and it mobilized \$3.79 billion in co-financing. As at June 30, 2014, cumulative pledges to the LDCF amounted to \$906.64 million, of which \$872.63 million have been received. Fifty NAPAs have been completed and each LDC can access \$30 million from the LDCF in accordance with the principle of equitable access. The 'NAP Global Support Program for LDCs' has been approved, which allows all LDCs to benefit from training, tools and information to launch their NAP processes, while providing more in-depth support towards needs assessments and capacity building in a smaller number of countries.

## 6. Other climate finance issues on the COP agenda

### Finance in the Adaptation Committee

The Adaptation Committee (AC) met twice in 2014 and progressed the implementation of its 2013-2015 work plan. At the time of writing this report, the full report of the AC to the COP has not yet been available.

A number of agenda items and conclusions have relevance for finance matters in the UNFCCC. The AC also invested in close engagement with with the Standing Committee on Finance and its members, including through a

32 Ibid.

33 Ibid.

34 See <http://unfccc.int/resource/docs/2014/cop20/eng/02.pdf>, p. 27

presentation by a SCF member in the 7th AC meeting regarding potential linkages between SCF and AC. SCF tasks with cross-cutting relevance include aspects such as the review of the Financial Mechanism, the elaboration of guidance to the operating entities of the FM and the first Biennial Assessment and overview of climate finance flows.<sup>35</sup>

In 2014, a particular focus of the AC has been work related to National Adaptation Plans (NAPs). At its 6th meeting, the AC set up a NAPs Task Force. A work plan was developed with the input of various institutions, including the GEF related to its NAP Global Support Programme (GSP).<sup>36</sup> For the first time discussed a technical paper specifically for NAP finance. The concept note for this paper touches on a range of issues, from aspects of additionality of NAP activities and identification of full and additional costs, to aspects of access to NAP finance etc.<sup>37</sup> The AC will continue its discussions on this matter at its next meeting (March 2015), based on the available version of the paper which is supposed to focus on the areas of "access to finance and programmatic approach", and also plans to engage other bodies such as the SCF in its elaboration.

The AC also engaged with the Green Climate Fund in relation to the development of the GCF's result-management framework and its discussions on additional adaptation result areas. Based on considerations at its 6th meeting, the AC co-chairs send a letter to the GCF Board (March 2014) and made a number of recommendations, building on some of the specifics of adaptation and also referring to the Adaptation Committee's report on the expert meeting on Monitoring and Evaluation.<sup>38</sup> The AC also highlighted the need for greater communication between the two bodies.

Of relevance to the provision of guidance to the climate finance institutions are the recommendations prepared in regard to the joint Adaptation Committee/Nairobi Work Programme (NWP) expert meeting on available tools for

35 See [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/adaptation\\_committee/application/pdf/4c\\_collaboration\\_scf.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/4c_collaboration_scf.pdf)

36 [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/adaptation\\_committee/application/pdf/5a\\_work\\_nap\\_tf\\_naps.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/5a_work_nap_tf_naps.pdf)

37 [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/adaptation\\_committee/application/pdf/ac6\\_concept\\_note\\_policy\\_paper\\_on\\_nap\\_finance\\_15\\_sept.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/ac6_concept_note_policy_paper_on_nap_finance_15_sept.pdf)

38 [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/adaptation\\_committee/application/pdf/gcf\\_b\\_letter\\_13\\_march\\_2014.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/gcf_b_letter_13_march_2014.pdf)

the use of indigenous and traditional knowledge and practices for adaptation, needs of local and indigenous communities and the application of gender-sensitive approaches and tools for adaptation. At its 6th meeting, the AC agreed to include main recommendations in its report to the COP. These include to “encourage the Adaptation Fund, the Global Environment Facility and the Green Climate Fund to consider and integrate local, indigenous and traditional knowledge and practices into adaptation planning and practices, as well as procedures for monitoring, evaluation and reporting”.<sup>39</sup>

In 2015, the AC plans to hold a specific workshop on means to incentivize the implementation of adaptation actions, based on its COP approved work plan. At its 6th meeting, the AC agreed to look in particular at the following areas<sup>40</sup>: a) understanding adaptation finance: Success and failure in effective and concrete action; and b) national institutional arrangements, private sector, NAP process; access to finance.

### Finance in the Warsaw International Mechanism on Loss and Damage

COP19 concluded with the establishment of the Warsaw International Mechanism (WIM) on Loss and Damage associated with the adverse impacts of climate change.

The ExCom agreed on a proposal for a work plan and submitted it in its report to the COP.<sup>41</sup> How to address finance in the context of loss and damage was one of the most controversial issues in the work of the ExCom.<sup>42</sup>

The work of the WIM is expected to address both economic and non-economic losses from climate change. The work plan’s action area 7 is the one most relevant to financial issues, seeking to “Encourage comprehensive risk management by the diffusion of information related to financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change to facilitate finance in loss and damage situations in accordance with the policies of each developing country and

39 [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/adaptation\\_committee/application/pdf/8\\_itk\\_ac6.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/8_itk_ac6.pdf)

40 [http://unfccc.int/adaptation/groups\\_committees/adaptation\\_committee/items/8467.php](http://unfccc.int/adaptation/groups_committees/adaptation_committee/items/8467.php)

41 <http://unfccc.int/resource/docs/2014/sb/eng/04.pdf>

42 See also the report by observers: <http://www.twinside.org.sg/title2/climate/info.service/2014/cc141001.htm>

region, taking into account the necessary national efforts to establish enabling environments.”

It contains a number of proposed activities with the aim of arriving at an improved understanding by public bilateral and multilateral institutions and funds, private financial institutions and developed and developing countries on the range of financial instruments and tools to enhance action and support, including finance, technology and capacity-building, to address loss and damage associated with the adverse effects of climate change.<sup>43</sup> Priority activities for 2015 include: generating information from best practices, challenges and lessons learned from existing financial instruments; and encouraging institutions and private investors to incorporate climate risk into development projects. In all its work, the WIM also plans to draw on work by other institutions, underlining the need to collaborate also with bodies such as the SCF.

COP20 is also expected to decide on the composition and modalities for the WIM. The negotiations at SB40 in June 2014 in Bonn indicated that the proposal by numerous developing country Parties to establish, as a specific modality, a technical and a financial facility may become a controversial issue and should be observed from a finance perspective.<sup>44</sup>

## 7. Conclusions

Progress on various aspects of climate finance will be needed in Lima in order to pave the way for the climate deal to be agreed in 2015 in Paris. These include new financial commitments until 2015, clarity on the pathway to the US\$100 billion commitment by 2020, progress on accounting and reporting, and the finance architecture needed. The in-session high-level ministerial dialogue will hopefully break the deadlock on some of the issues that are affecting progress on other key climate negotiations, around mitigation targets in particular.

The initial resource mobilization process for the GCF has been successful so far this year. Developed countries have pledged a total amount of around US\$ 9.6 bn to the GCF. This amount is, however, slightly below the conservatively expected amount of US\$ 10 bn. It is expected that the

43 [unfccc.int/resource/docs/2014/sb/eng/04.pdf](http://unfccc.int/resource/docs/2014/sb/eng/04.pdf)

44 <http://unfccc.int/resource/docs/2014/sb/eng/l04.pdf>



remaining developed countries will make additional commitments, in order to reach this US\$ 10 bn goal.

Noteworthy will be the discussion around the report and the Second Review of the Adaptation Fund (AF). Several developing countries have raised concern on the financial situation of the Fund, which despite its ongoing good track record is facing serious financial constraints. The question at the centre of the discussion will be how to ensure the provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams of the AF and how the AF could meet its fundraising target of US\$80 million by the end of 2014.

The Biennial Assessment and overview of climate finance flows will be an important input and will serve as a reference point that will inform the climate finance negotiations. As aforementioned, the BA also contains specific recommendations for helping to improve and harmonize methodologies for reporting climate finance data both within the SCF and in cooperation with relevant stakeholders and institutions. Based on this, a COP decision on MRV of support that could become part of the 2015 agreement would be an important step. Last but not least, the COP needs to provide specific guidance to the SCF on how the Committee could improve and move forward a definition of climate finance under the Convention.





**Table: Finance Agenda Items at COP20/CMP10**

Agenda Items	Relevant COP Mandates and Decisions	Discussion in the course of 2014 and what is to be expected in Lima
<b>COP20</b>		
<p><b>Long-term climate finance</b></p>	<p>The COP urges developed country Parties to maintain continuity of mobilization of public climate finance at increasing levels from the fast-start finance period in line with their joint commitment to the goal of mobilizing US\$ 100 billion per year by 2020. <i>Decision 3/CP.19, para 7</i></p> <p>The COP calls on developed country Parties to channel a substantial share of public climate funds to adaptation activities. <i>Decision 3/CP.19, para 8</i></p> <p>The COP requests developed country Parties to prepare biennial submissions on their updated strategies and approaches for scaling up climate finance from 2014 to 2020, including any available information on quantitative and qualitative elements of a pathway, on the following:</p> <ul style="list-style-type: none"> <li>• Information to increase clarity on the expected levels of climate finance mobilized from different sources;</li> <li>• Information on their policies, programmes and priorities;</li> <li>• Information on actions and plans to mobilize additional finance</li> <li>• Information on how Parties are ensuring the balance between adaptation and mitigation, in particular the needs of developing countries that are particularly vulnerable to the adverse effects of climate change;</li> <li>• Information on steps taken to enhance their enabling environments, following on from the report of the co-chairs of the extended work programme on long-term finance. <i>Decision 3/CP.19, para 10</i></li> </ul>	<p>The submissions on strategies and approaches were expected to be submitted to the COP at least 12 weeks before Lima. The expected date was 24 September 2014. The biennial submission will be submitted shortly before the COP<sup>45</sup> and should contain:</p> <ul style="list-style-type: none"> <li>• Information to increase clarity on the expected levels of climate finance mobilized from different sources;</li> <li>• Information on their policies, programmes and priorities;</li> <li>• Information on actions and plans to mobilize additional finance;</li> <li>• Information on how Parties are ensuring the balance between adaptation and mitigation, in particular the needs of developing countries that are particularly vulnerable to the adverse effects of climate change;</li> </ul> <p>Information on steps taken to enhance their enabling environments, following on from the report of the Co-Chairs of the extended work programme on long-term finance.</p> <p>The Secretariat organised during the SBs an in-session workshop on, inter alia, strategies and approaches for scaling up climate finance, cooperation on enhanced enabling environments and support for readiness activities, and on needs for support to developing countries.<sup>46</sup></p> <p>There is no formal process to discuss the contents of these reports. However, they could be seen as inputs to the pathways debate in Warsaw, which has been discussed under the extended LTF-WP. The first high level meeting on long-term finance is scheduled.</p>

	<p>The COP requests the secretariat to organize an in-session workshop on, inter alia, strategies and approaches for scaling up climate finance, cooperation on enhanced enabling environments and support for readiness activities and on needs for support to developing countries. <i>Decision 3/CP.19, para 12</i></p> <p>The COP decided to convene a biennial high-ministerial dialogue on climate finance starting in 2014 and ending 2020. <i>Decision 3/CP.19, para 13</i></p>	
<b>Fifth Review of the Financial Mechanism</b>		
<b>Fifth Review of the Financial Mechanism</b>	<p>The COP requests the Standing Committee on Finance to continue to provide expert input to the Fifth Review of the Financial Mechanism, with a view to the review being finalized by the Conference of the Parties at its twentieth session (December 2014) <i>Decision 8/CP.19</i></p> <p>Upon the request by the COP, the SCF requested the secretariat to prepare an advanced draft of the technical paper. The executive summary of this advanced draft technical paper will be annexed to the report of the SCF as its expert inputs on the Fifth Review of the Financial Mechanism of the Convention, while the main document of the technical paper will be made available on the SCF website.<sup>47</sup></p>	<p>Last year the updated guidelines for the Fifth Review of the Financial Mechanism were adopted.</p> <p>This year the SCF at the request of the Warsaw COP, prepared its expert input in form of draft technical paper on the Fifth Review.</p> <p>Very likely the discussion of the Fifth Review will be an agenda item under the Subsidiary Body on Implementation. Originally, the review of the FM was conducted by the SBI. In Lima, parties will engage in the Fifth Review of the FM, drawing from the expert input prepared by the SCF. This will be done as an agenda item under the SBI as it was the case for the last reviews.</p>
<b>Report of the Standing Committee on Finance<sup>48</sup></b>		
<b>Biennial Assessment and overview of climate finance flows</b>	<p>The COP invited the SCF to consider ways to increase its work on the measurement, reporting and verification of support beyond the Biennial Assessment referred to in paragraph 8 above in accordance with its work plan for 2014–2015 and its mandates. <i>Decision 7/CP.19, para 8</i></p>	<p>The BA is not meant to be subject of any decision in Lima; rather, it should be regarded as valuable source of information for the rest of the process.<sup>49</sup></p> <p>Also the SCF addressed the issue of MRV of support beyond the Biennial Assessment.</p>



<p><b>Coherence and coordination: the issue of financing for forests</b></p>	<p>The COP requested the SCF to consider in frame of its work on coherence and coordination, inter alia, the issue of financing for forests, taking into account different policy approaches. <i>Decision 7/CP.19, para 10</i></p>	<p>In the course of this year, several consultations were undertaken during the meetings of the SCF. The outcome of this consultation will be in the report of the SCF to the COP. The COP will be requested to adopt the proposal of the SCF to focus its next forum on issues of financing for forests, taking into account different policy approaches.</p> <p>In addition in its report, the SCF intends to make its third forum on “coherence and coordination: finance for forests”.</p>
<p><b>SCF Forum</b></p>	<p>In the report of the SCF to the COP, Parties will be invited to take note of the second forum on adaptation as well as to adopt the topic of the third forum.</p>	<p>The theme of the third forum arises from the discussions under the agenda item on the work programme on results-based finance to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70. As a result, the SCF may wish to consider the target audience to ensure that it incorporates Convention and non-Convention actors.</p>
<p><b>Guidance to the Operating Entities of the Financial Mechanism</b></p>	<p>This is a standard agenda item negotiated at each COP meeting. This year, the discussion will draw on the reflection of the SCF on how to deal with the COP guidance.</p>	<p>With regard to improving the draft guidance to the OEs, one of the proposals was to update existing guidance. In this respect, there was broad agreement that the SCF should analyse past guidance and identify core guidance to the OEs and that a recommendation should be made by the SCF to COP 20 in this regard.</p> <p>In the context of the proposal for performance based guidance, there was broad agreement that this year’s guidance will be provided based on the OE reports, and that the SCF will continue to elaborate on the issue of improving future draft guidance to the OEs at its next meeting.</p> <p>Elements of draft guidance to the GEF as submitted by members of the SCF are contained in Annex V of the Report of the SCF to the COP. Annotated suggestions for elements of draft guidance to the GCF (as submitted by members of the SCF) will be provided in an addendum to the SCF report upon issuance of the GCF report. In addition, inputs received from the Adaptation Committee and the TEC are also contained in the Report to COP20 (Annex VI). The inputs received by the AC and TEC were neither discussed, nor commented on, nor endorsed by the SCF.</p>

<b>Work on MRV of support beyond the Biennial Assessment</b>	The COP invited the SCF to consider ways to increase its work on the measurement, reporting and verification of support beyond the Biennial Assessment in accordance with its work plan for 2014–2015 and its mandates. <i>Decision 7/CP.19, para 9</i>	Following its mandate on ways to increase its work on MRV of support beyond the BA, the SCF initiated its work at its fifth meeting in 2013, and further discussed the matter during its sixth and seventh meetings in 2014. The SCF has considered this matter at its eighth meeting in October 2014, and has included elements on this work in its work plan in its annual report to COP20. The COP will consider this and will decide on a way forward to address this matter.
<b>Report of the Green Climate Fund</b>		
<b>Guidance to the GEF</b>	<i>*Standard COP agenda item.</i>	* To be submitted to the COP in the report of the GEF <sup>50</sup>
<b>Guidance to the SCCF</b>	<i>*Standard COP agenda item.</i>	* To be submitted to the COP in the report of the SCCF
<b>Guidance to the LDCF</b>	<i>*Standard COP agenda item.</i>	* To be submitted to the COP in the report of the LDCF
<b>Report of the GEF</b>		
<b>Report of the GCF to the COP</b>	<i>*Standard COP agenda item.</i>	* To be submitted to the COP by the GCF Board
<b>Guidance to GCF</b>	<i>*Standard COP agenda item.</i>	This will be the first guidance to the GCF after the COP GCF arrangement and the initial guidance were adopted in Warsaw. The discussion will be based on the recommendation by the SCF and the report of the GCF to the COP.
<b>CMP 10</b>		
<b>Report of the Adaptation Fund<sup>51</sup></b>	<i>*Standard COP agenda item.</i>	Issues related to finance of the Adaptation Fund. Lima will show if the AF is successful with its fundraising campaign of mobilizing by US\$80 million by COP20.
<b>Second Review of the Adaptation Fund<sup>52</sup></b>	The CMP requested the SBI to initiate the Second Review of the AF in accordance with the terms of reference contained in the annex to decision 6/CMP.6, or as these guidelines may be subsequently amended, and to report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session, with a view to the review being undertaken by CMP10. CMP9 provided the terms of reference for the review. <i>Decision 2/CMP.9</i>	The Second Review will be finalised at this meeting.  The objective of the Second Review is to ensure the effectiveness, sustainability and adequacy of the operation of the Fund including the potential diversification of revenue streams, to fund concrete adaptation projects.



## Table Footnotes

- 45 Link to the submissions: <http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionsfrom=Parties&focalBodies=COP>
- 46 The summary report of the in-session LTF workshop are available at: <http://unfccc.int/resource/docs/2014/cop20/eng/03.pdf>
- 47 The technical paper can be found at: [https://cms.unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/technical\\_paper\\_fifth\\_review\\_of\\_the\\_financial\\_mechanism\\_18112014\\_\\_final.pdf](https://cms.unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/technical_paper_fifth_review_of_the_financial_mechanism_18112014__final.pdf)
- 48 Report of the SCF available at: <http://unfccc.int/resource/docs/2014/cop20/eng/05.pdf>
- 49 The executive summary of the BA can be found at: [http://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/20716\\_unfccc\\_ftc\\_summary\\_v5.pdf](http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/20716_unfccc_ftc_summary_v5.pdf)
- 50 Report of the GEF to the COP available at: <http://unfccc.int/resource/docs/2014/cop20/eng/02.pdf>
- 51 Report of the Adaptation Fund available at: <http://unfccc.int/resource/docs/2014/cmp10/eng/06.pdf>
- 52 Technical paper on the second review of the Adaptation Fund available at: <http://unfccc.int/resource/docs/2014/tp/07.pdf>



## About CFAS

The Climate Finance Advisory Service (CFAS) offers negotiators, policy makers and advisors in the poorest and most climate vulnerable countries bespoke information and guidance to help them effectively participate in complex global climate finance negotiations. It is supported by the Climate and Development Knowledge Network (CDKN).

## About CDKN

The Climate and Development Knowledge Network (CDKN) aims to help decision-makers in developing countries design and deliver climate compatible development. We do this by providing demand-led research and technical assistance, and channeling the best available knowledge on climate change and development to support policy processes at the country level.

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