

STANDING COMMITTEE ON FINANCE #3

TOWARDS OPERATIONALIZATION:

**GERMANWATCH'S SHORT REPORT ON THE
THIRD MEETING OF THE STANDING
COMMITTEE ON FINANCE**

By Alpha O. Kaloga, Sven Harmeling and Libasse Bah

Brief Summary

The third meeting of the Standing Committee on Finance (SCF) took place in Bonn from the 8th to the 10th March 2013. The SCF has been established by the Conference of the Parties to the UNFCCC to assist the Conference of Parties (COP) in exercising its functions with respect to the financial mechanism of the Convention.

At this meeting the debate took place in both; plenary and in breakout sessions. In the plenary, Committee members discussed on the relevance of each item with regard to their core mandate as well as key elements of deliverables for the meeting. Later on, Board members were divided, depending on their interests, into breakout sessions along the item on the agenda with the view of making recommendation in the plenary for adoption by all board members. The outcomes of key items of agenda summarised in this briefing are the following: a) Fifth review of the Financial Mechanism (FM); b) Arrangements between the COP and the GCF; c) The organisation of the SCF's forum; d) The expert inputs to the 2013 work programme of long term finance.

This report paper summarises the key decisions taken during the third meeting of the SCF.

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1 Executive Summary

From the 8th to the 10th March 2013, the Standing Committee on Finance (SCF) held its third meeting in Bonn. This meeting took place only a few days prior to the third meeting of the Green Climate Fund (GCF) scheduled in Berlin from March 12th to the 15th.

The SCF has been established by the Conference of the Parties to the UNFCCC to assist the Conference of Parties (COP) in exercising its functions with respect to the financial mechanism of the Convention, in terms of improving coherence and coordination in the delivery of climate change financing, rationalization of the financial mechanism, mobilization of financial resources and measurement, reporting and verification of support provided to developing country Parties.

At this meeting the debate took place in both plenary and in breakout sessions. It should be highly appreciated that the Committee Co-Chairs and also the members were very open in encouraging contributions from the observers, who could attend the breakout sessions and engage in the discussions. In the plenary, committee members discussed on the relevance of each item with regard to their core mandate as well as key elements of deliverables for the meeting. Later on, Board members were divided, depending on their interests, into breakout sessions along the item on the agenda with the view of making recommendation in the plenary for adoption by all board members. The key items on the agenda of the third meeting of the SCF were the following:

- a) Inputs of the SCF on the fifth review of the Financial Mechanism (FM);
- b) Arrangements between the COP and the GCF;
- c) The organisation of the SCF's forum;
- d) The expert inputs to the 2013 work programme of long term finance.

2 Inputs of the SCF on the fifth review of the Financial Mechanism (FM)

In Doha, the COP requested the SCF pursuant to its mandate anchored in decision 2/CP.17, paragraph 121(e) to *initiate the review of the Financial Mechanism (FM), taking into account existing guidelines and recent developments within the FM [...] to further amend the guidelines for the review of the financial mechanism, and to provide draft updated guidelines for consideration and adoption by the COP at its nineteenth session, with a view to finalizing the fifth review of the financial mechanism for consideration by the COP at its twentieth session.*

The guidelines for the review were lastly updated in 2007 at COP13 in Bali, broadening the scope of the review to matters related to Article 11.5 of the

Convention, which addresses bilateral, regional and multilateral climate finance going through other channels than the official operating entities of the FM. The decision from Doha furthermore provides some guidance for amending the guidelines through mandating to take into account information from fast-start finance, the work of the Green Climate Fund, the initial review of the Adaptation Fund and the work programme on long-term finance.

A briefing paper prepared by Germ anwatch and CDKN in the context of the Climate Finance Advisory Service (CFAS) outlines some more background information on past reviews of the FM as well as expectations towards the fifth review.

With regard to the review of the FM, SCF members discussed among others about the timeline for the review and particularly about elements to be amended and updated in the guidelines of the review drawing upon the lessons from the previous reviews.

Some members were of the view that the guidelines are still up to date, and given the time constraint until the finalization of the review, the exercise in their view should be not to update the guidelines, but rather should strive to respond to "the why the implementation of those guidelines were not successful".

Other members listed several shortcomings and limits of the previous reviews and recalled that the upcoming review should pay due attention to the evolving nature of climate change and related financial architecture, and goes beyond the scope of the Convention. The Doha decision already indicates that there have been important developments in the climate finance arena. It is now therefore important to assess whether this could be captured through the existing guidelines or not. In doing so, it is not only important to assess the guidelines and update them as necessary, but also to bear in mind that the SCF is itself a new development of the FM. Hence, the review should be regarded as mean to fulfil the core functions of the SCF and go along those guidelines.

An important point of discussion was further whether the scope of the review is only related to recommendations to the operating entities (the GEF and now the Green Climate Fund), or whether it is about the broader financial architecture, which was the understanding of other SCF members.

So far the previous review was undertaken in the context of the replenishment process of the GEF, which was until the fourth review, the only operating entity of the FM. In addition, some members highlighted the need to commission independent evaluation of the operating entities, in contrast of relying on the evaluation findings of the Evaluation Office of the different operative entities. This would be in line with the decision from Durban taken related to the SCF. Moreover it was also suggested to consider performance indicators to measure the conformity of the operating entities with the guidance and aspects such as institutional effectiveness and efficiency. Some SCF members also highlighted that only recently Parties have made submissions on what elements they want to

have included in the fifth review and which have not yet been taken into account in the discussions.

After discussion, it was decided that the SCF should proceed as follows with regard to the review. Regarding the guidelines, it was agreed that the current one will serve as basis of the review and could be updated, as deemed as necessary, taking into account the new developments within the FM and submissions from Parties. To start as soon as possible with the preparation of the technical work, it was agreed to aim for provisionally finalising the guidelines by the next meeting of the SCF which will be probably held in June. The amended guidelines would then still have to be considered and approved by COP19.

In addition the SCF should allow an enhanced exchange with the institutions which are primarily subject to the review, the GEF and the GCF. In this particular regard, it was decided that some SCF members should attend for instance the meeting of the GEF Council. A core team of four SCF members has been set up, with additional members participating in accordance with their availability and interests to work on elements of the review, with the view of finalising the guidelines at the next meeting of the SCF.

3 Arrangements between the COP and the GCF

At COP 18, the COP requested the Standing Committee on Finance (SCF) and the Green Climate Fund Board (GCF) to develop the arrangements between the COP and the Fund, in accordance with the governing instrument of the GCF and Article 11.3. This should then be agreed by the Green Climate Fund Board and subsequently by COP 19. In order to fulfil this mandate, the SCF members held a virtual meeting in January 2013, during which a call for submissions of views from SCF members on this matter was made. Five committee members responded to this call in form of e-mail suggestion or providing a draft decision document covering all elements of the arrangement.

The COP and GCF arrangement is perceived as one of the sensitive items to be addressed this year. In the SCF meeting, the first discussion on this matter dealt with the role of the SCF and the different decisions that should serve as basis of the arrangement. Some members, mainly from developed countries, were of the view that paragraphs 4-6 of the GCF instrument, taken together with Article 11 of the Convention, form a sufficient basis for the arrangements. They therefore claimed that the arrangement is a procedural one striving to give a technical interpretation/operationalisation of existing provision on the arrangements. In doing so, the only appropriate option would be to firstly set a joint task force consisting of a few members and Co-Chairs of the GCF Board and the SCF. This task group would work intersessionally work on the arrangements.

Other members mainly from developing countries were of the view that the mandate was to co-develop an arrangement with the GEF. The provisions of the governing instrument and Art. 11.3 are surely the foundation of the arrangements, but it is questionable whether it suffices for an arrangement that is supposed to be long lasting. Therefore, the SCF should agree on the modalities and elements of the arrangements as well as the sequence of work between the SCF and the GCF Board.

In the breakout session, the discussion was focused on the elements of the arrangements and the further process to engage with the GCF. Agreement was reached on these matters after very intense and partially controversial discussions. Given the remaining time until the COP, committee members recognised the urgency to agree the modalities of cooperation with the GCF Board.

The SCF managed to agree on a list of possible elements for the arrangements between the COP and the GCF with which it will now enter into discussion with the GCF Board:

- 1) Preamble, 2) Purpose of the arrangements, 3) Determination and communication of the guidance of the COP, 4) Conformity with COP guidance, 5) Reconsideration of funding decisions, 6) Report of the GCF to the COP, 7) Determination and provide periodic review of funding necessary and available, 8) Cooperation between secretariats, 9) Representation in meeting of governing bodies, 10) Review and Evaluation of the financial mechanism and 11) Review of the arrangements.

In the discussion that led to those elements, some members cautioned not to attempt to micro-manage the GCF. Others pointed out that the elements selected have largely emanated from the Memorandum of Understanding between the COP and the GEF, and experiences showed that the COP never micro-managed the GEF.

The main controversial element of the COP GCF arrangement discussion at the meeting was related to the mobilization of resources the fund, meaning the funding flowing into it and the instruments that could generate the resources. Also here, there were two groups. The first group assuming that the governing instrument refers to alternative sources of finance and therefore the GCF should report to the COP on the source of finance indicating those mobilized through alternative sources. The other group makes clear that the mobilisation of funding should by no means be subject of the arrangement. Simply because not the COP, but contributing Parties have to decide on the source of finance they wish to channel through the GCF.

An agreement on this matter could only be reached in the sense that mobilisation of resources was not included in the list of possible elements. But the report of the meeting should address that the discussions on this matter will be continued.

A letter was prepared by the SCF which will serve as communication between the SCF and the GCF Board. It was agreed that the Co-Chairs of the SCF should be mandated to develop with the GCF Board the draft arrangements based on the proposed elements agreed by the SCF and the GCF Board. Members of both bodies could, according to the agreement in the SCF, input into the process through their Co-Chairs. The GCF Board meeting in Berlin could serve as a good opportunity to have a first meeting. Given the draft arrangements would have to be finalised by the third meeting of the GCF Board which is scheduled for September, it would be important to make substantial progress on this issue already by the next meeting of the GCF Board/SCF (likely in June). The schedule proposed by the SCF suggests to have a first draft of the arrangements ready by then, and a final draft for September. It will be interesting to see how the GCF Board will follow up on this discussion.

4 The organisation of the SCF's forum

The COP, at its seventeenth session in Durban, agreed on the functions and activities of the SCF, including the organization of 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. In Doha, the COP encouraged the SCF to facilitate the participation of the private sector, financial institutions and academia in the forum activities. In terms of the format of the forum, the delivery of the forum may make use of a range of different discussion formats, including roundtables, presentations, panel discussions, consultations, and others, which may run simultaneously as appropriate. At its second meeting, the SCF decided on types of forum. The virtual forum, which will allow on-going interactions and continued exchanges of information to take place between all climate finance stakeholders. The second type is an in-person one, which will take place one or two times a year. The in-person will take place back to back or prior to international meetings dealing with climate finance.

The SCF discussed the preliminary elements of the forum of the SCF in the second SCF meeting held in October 2012. It then decided that the chair and vice-chair would undertake intersessional work including on the preparation of the forum of the SCF. The intersessional work took place in form of a virtual meeting. Board members participated on a voluntary basis to work on the details and implementation plan and to present a proposal to the SCF at its 3rd meeting in Bonn in March.

It became clear in the plenary as well as in the breakout group sessions that there were no notable divergences among SCF members on the objectives of the forum. The fact of not having an in-person forum in 2013 would send the wrong signal

about work of the SCF. Therefore, there should be a forum in 2013. However, there were different views on how the forum should work and where the forum should be kicked off. In the virtual meeting held up front of the third meeting, some SCF members proposed to partner with the Carbon Expo scheduled from May 29 to 31 in Barcelona.

At the meeting a representative of the World Bank was requested to explain the purpose of the Carbon Expo. The Carbon Expo is usually attended by more than 2000 persons engaged in the carbon market. However, taking into account the price fall in the carbon market, the expo has now shifting to become a climate finance forum. As response to the explanation of the World Bank representative, some members expressed their concern that the Carbon Expo is more mitigation related, and this could bode ill the purpose of the forum. In addition, they do not believe how relevant adaptation issues would be handled in such a process, bearing in mind that adaptation is a critical issue for their constituency. They therefore, in the case that the first meeting would take place at the sideline of the Carbon Expo, suggested to broaden the audiences by specifically inviting some people that are working in other fields such as adaptation, forest management etc. In contrast, another member pointed out that there is a big world outside the Convention and given the small amount of money for climate finance going through funds of the Convention, it is now time to start understanding the investments and flows outside going the convention. This should help exploring their motivation and their investment criteria. The Carbon Expo is actually an opportunity to inform its participants that climate change is more than mitigation and to propose the range of activities related to climate finance. For instance, with regard to adaptation, one could admit that most of the private sector actors do not know what that means, because it basically has not to do with their daily business. The Carbon Expo is an opportunity to convey clear message that adaptation is for instance, about water management, disbursement and service, or adaptation could be understood as agricultural intervention as well, which can generate benefits for private sector as well.

Other members mentioned that we should not lose from the radar, the work programme on long term on finance, which has been extended in Doha and could also inform the forum. The forum of the SCF should aim at not duplicating the efforts, but rather truly added value through expert inputs the work programme on long term finance. In doing so the secretariat was requested to map for consideration for the SCF, all the relevant events on climate finance in the next two years and explore the potential benefits for the forum to partner with them. Some members requested to seek other options, for the case the Carbon-Expo will not be feasible.

To sum up, the first meeting is dedicated to be humble and focussed, in order to generate valuable lessons, which the SCF could include in its report to the COP.

5 Inputs to the 2013 work programme on long-term finance (WPLTF)

Background to this issue is the decision 4/CP.18, which through paragraph 2 extends *"the work programme on long-term finance for one year to the end of 2013. The aim of the extension is to inform developed country Parties in their efforts to identify pathways for mobilizing the scaling up of climate finance to USD 100 billion per year by 2020 from public, private and alternative sources in the context of meaningful mitigation actions and transparency on implementation. The same decision in paragraph 3 invited Parties and the thematic and expert bodies under the Convention to submit to the Secretariat of the UNFCCC, by 21 March 2013, their views on long term finance, taking into account the report of the work programme on long-term finance, with the view to the Secretariat preparing a document by the CO-Chair on long-term finance.*

As to date, there is no official information on the format, the venue and the time further activities of the WPLTF should take place. Also, there are so far no Co-Chairs appointed to facilitate the WPLTF. Given the remaining time until the next COP and the importance of this issue for the whole financial mechanism, it is important to commence the work on this particular matter as soon as possible.

There are potential overlaps between the WPLTF and the work of the SCF's forum, and this should be borne in mind by both processes. Both should seek to enhance the synergy and promote the linkages to each other throughout the year. More importantly, both institutions should complement each other and should avoid duplicating each other efforts, but rather both institutions should closely follow-up and draw upon the development and inputs of each other.

In terms of which inputs the SCF, as thematic and expert body of the Convention, may provide to the WPLTF, the Committee expressed that it stands ready to follow the request by the COP to provide expert inputs to the design and conduct of the WPLTF. However, given the tight time frame - a submission has been asked for by 21 March -, the SCF decided only to forward its report of the third meeting to the to still be nominated Co-chairs of the WPLTF.

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