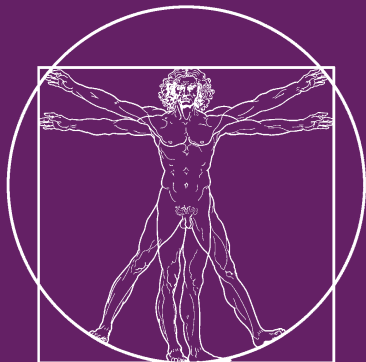


POCKET GUIDE TO FINANCE

POCKET
GUIDE TO
FINANCE
UNDER
THE UNFCCC



ecbi

POCKET GUIDE TO FINANCE

POCKET
GUIDE TO
FINANCE
UNDER
THE
UNECCC

The contents of this report do not necessarily represent the views of the European Capacity Building Initiative (ecbi), any of its members, or its supporting partners.

Copyright © Oxford Climate Policy 2020

First published December 2020

All rights reserved. This publication may be reproduced, distributed, or transmitted for educational or non-profit purposes with permission from the copyright holder. For permission, email the Series Editor.

Series Editor: Anju Sharma

anju.sharma@oxfordclimatepolicy.org

This guide is written by Anju Sharma, C. Therese Guiao, and Diann Black-Layne. Contributions from Mikaela V. Bernardino. We are grateful to Yolando Velasco, Jos Buys, Zaheer Fakir, Mariama Williams, and Joana Helms for their comments and suggestions. All errors remain our own.

Funding Partners

This project is supported by the Climate Policy Support Programme of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It is also supported by SIDA.



On behalf of



Federal Ministry
for Economic Cooperation
and Development



Member Organisations



FOREWORD

For over a decade, the European Capacity Building Initiative (ecbi) has adopted a two-pronged strategy to create a more level playing field for developing countries in the UN Framework Convention on Climate Change (UNFCCC): training negotiators from developing countries; and providing opportunities for senior negotiators from developing countries and Europe to interact, and build mutual trust.

The first part of the strategy focuses on providing training and support to new developing country negotiators, particularly from Least Developed Countries. The climate change negotiations are often technical and complex, and difficult for new negotiators (who are most often not climate specialists) to fully grasp even over a period of two or three years. We hold regional training workshops to bring them up to speed on the negotiations. We also organise training workshops before each Conference of the Parties (COP) to the UNFCCC, covering topics specific to that COP. To ensure continuity in our capacity building efforts, we offer bursaries to a few women negotiators to attend the negotiations and represent their country and region/grouping. Finally, we help negotiators build their analytical capacity through our publications, by teaming them up with global experts to author policy briefs and background papers.

This strategy has proven effective over time. “New” negotiators that trained in our early regional and pre-COP workshops have risen not only to become senior negotiators in the process, but also leaders of regional groups and of UNFCCC bodies and committees, and ministers and envoys of their countries. These individuals remain part of our growing alumni, and are now capacity builders themselves, aiding our efforts to

train and mentor the next generation. Their insights from once being new to the process themselves have helped us improve our training efforts.

The second ecbi strategy relies on bringing senior negotiators from developing countries and from Europe together, at the annual Oxford Seminars and the Bonn Seminars. These meetings provide an informal space for negotiators to try to understand the concerns that drive their specific national positions, and come up with solutions to drive the process forward. They have played a **vital role** in resolving some difficult issues in the negotiations.

Following the adoption of the Paris Agreement in 2015, ecbi produced Guides to the Agreement in English and in French. Since they proved popular with both new and senior negotiators, we developed this series of thematic Pocket Guides, to provide negotiators with a brief history of the negotiations on the topic; a ready reference to the key decisions that have already been adopted; and a brief analysis of the outstanding issues from a developing country perspective. These Guides are mainly **web-based** and updated frequently. Although we have printed copies of the English version of the Guides due to popular demand (please **write to us** if you would like copies), the online versions have the added advantage of hyperlinks to access referred material quickly.

As the threat of climate change grows rather than diminishes, developing countries will need capable negotiators to defend their threatened populations. The Pocket Guides are a small contribution to the armoury of information that they will need to be successful. We hope they will prove useful, and that we will continue to receive your feedback.

Anju Sharma

Deputy Managing Director, Oxford Climate Policy
Head, Communications and Policy Analysis Programme, ecbi

GLOSSARY

ADP	Ad-hoc Working Group on the Durban Platform
AOSIS	Alliance of Small Island States
AILAC	Independent Association of Latin America and the Caribbean
APA	Ad-Hoc Working Group on the Paris Agreement
AWG-KP	Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action
CBDR-RC	Common but differentiated responsibilities and respective capabilities
CDM	Clean Development Mechanism
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
EDA	Enhanced Direct Access
GCF	Green Climate Fund
GEF	Global Environment Facility
GST	Global stocktake
INC	Intergovernmental Negotiating Committee
IRM	Initial resource mobilisation (of the GCF)
LDCs	Least Developed Countries
LDCF	LDC Fund
LTF	Long-term finance
MPGs	Modalities, procedures, and guidelines
MRV	Measurement, reporting and verification

NAPAs	National Adaptation Programmes of Action
ODA	Official development assistance
RAF	Resource Allocation Framework (of the GEF)
SBI	Subsidiary Body for Implementation
SBSTA	Subsidiary Body for Scientific and Technological Advice
SCF	Standing Committee on Finance
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
STAR	System for Transparent Allocation of Resources (of the GEF)
UNCED	UN Conference on Environment and Development
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNFCCC	UN Framework Convention on Climate Change
WCED	World Commission on Environment and Development

CONTENTS

What is climate finance?	1
What is the history of climate finance under the UNFCCC?	7
What is the institutional architecture for climate finance under the UNFCCC?	53
What national challenges do developing countries face with regard to climate finance?	65
What are the future challenges related to climate finance?	69
References	71
Annex	76

WHAT IS CLIMATE FINANCE?

The provision of financial resources by developed countries to deal with climate change in developing countries, which are generally understood to have historically contributed less to causing climate change but currently suffer its impacts disproportionately, is a foundational element that has underpinned international negotiations on climate change since their inception.

UN Resolution 44/228, adopted in December 1989, noted that *“...the responsibility for containing, reducing and eliminating global environmental damage must be borne by the countries causing such damage, must be in relation to the damage caused and must be in accordance with their respective capabilities and responsibilities”*.¹

The Rio Declaration adopted at the UN Conference on Environment and Development (UNCED) in 1992 also recognised that *“[i]n view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command”*.²

The Preamble of the 1992 UN Framework Convention on Climate Change (UNFCCC) similarly calls for *“the widest possible cooperation by all countries and their participation in an effective*

and appropriate international response [to climate change], in accordance with their common but differentiated responsibilities and respective capabilities and the social and economic conditions”.

This principle of “common but differentiated responsibilities and respective capabilities” (CBDR-RC) in the UNFCCC was viewed by developing countries as a diluted version of the “polluter pays principle” as it includes the notion of “ability to pay” in addition to “responsibility to pay”.³ The polluter pays principle is commonly accepted practice in national and global environmental law, where the party responsible for producing or causing pollution is held accountable for compensating for the damage it causes to the environment.⁴

While the UNFCCC includes commitments for developed countries to provide financial resources to developing countries (in Article 4), in the absence of a direct reference to the polluter pays principle in the UNFCCC, these financial resources are not characterised as “compensation” for damages caused by climate change in the negotiations. Developing countries are nevertheless keen to distinguish these financial resources from financial aid, or official development assistance (ODA), which is provided at the discretion of donors. According to some developing country negotiators who were part of the Paris Agreement negotiations, the term “climate finance” used in Article 9 of the 2015 [Paris Agreement](#) has evolved to distinguish the financial resources provided under the UNFCCC from ODA.⁵

► LACKING DEFINITION

There is, however, no internationally agreed definition of climate finance as yet. An attempt was made by the Standing Committee on Finance (SCF) to define climate finance in its *2016 Biennial Assessment Report*, which noted that although

a number of different operational definitions of climate finance exist, these definitions converge upon a set of common elements that can be framed as follows:

“Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.”⁶

This is a broad definition that avoids many of the controversies surrounding climate finance in the global negotiations, such as its:

- Source (public or private sources). This also relates to references on the “provision” and “mobilisation” of climate finance. The former generally refers to public funds coming directly from developed country governments, while the latter refers to their efforts to raise funds from other sources.
- Type (development aid, private equity, loans, grants, concessional finance).
- Channel (whether it flows through bilateral or multilateral institutions).
- Governance (who decides how it is allocated and used).
- Additionality (whether it is “new”, and over and above development assistance).
- Adequacy (whether it is adequate for developing countries to address climate challenges, including mitigation, adaptation, and loss and damage).
- Predictability (to allow recipients to plan action in advance).
- Amount (including long-term pledges and roadmaps to achieving them).
- Balance (between mitigation and adaptation finance, and also finance for new elements such as loss and damage).

These issues are often linked in complex ways. For instance, including both public and private sector sources in the definition of climate finance makes it more difficult to count climate finance – it is difficult to pinpoint or agree on exactly how much private sector finance can be classified as climate finance, and if any of it is “additional” to private sector flows that might have occurred anyway.

In the absence of a mutually agreed definition for climate finance, and of broad agreement between developed and developing countries on what should be counted as climate finance, different entities and stakeholders arrive at different figures for climate finance provided by developed countries during the same period (see **Box 1**).

Developing countries have constantly emphasised the following key characteristics for climate finance in the negotiations:

- Climate actions by developing countries rely on financial and other resources provided by developing countries, as agreed under UNFCCC Article 4.7 and reiterated in subsequent decisions such as the Bali Action Plan.
- Climate finance should be “new and additional”, as agreed under UNFCCC Article 4.3, and should not be rebranded ODA.
- Public finance should be the primary source of climate finance, supplemented by private sector finance.
- Climate finance should be provided mainly as grants, followed by concessional loans, as agreed under UNFCCC Article 11.1.
- Developed countries should lead the provision and mobilisation of climate finance.
- Climate finance provided for mitigation and for adaptation should be balanced.

BOX 1: Counting climate finance

Estimates of the amount of climate finance provided to developing countries vary wildly, because they define climate finance differently. So, for instance, *Climate Policy Initiative* takes into account public and private sources of finance and estimates that climate finance flows “reached a record high” of US\$ 612 billion in 2017 and US\$ 546 billion in 2018.⁷ The *Organisation for Economic Cooperation and Development*, meanwhile, estimates that climate finance “provided and mobilised” by developed countries rose rather than fell by 11% during the same period, from US\$ 71.2 billion in 2017 to US\$ 78.9 billion in 2018.⁸

Meanwhile, Oxfam International counts only the “*public climate-specific net assistance*”, or the grant equivalent, provided by developed countries to developing countries. The *Climate Finance Shadow Report 2020* finds that most developed countries continue to count loans at their full face value, rather than only the grant equivalent (the amount of money given to a developing country once repayments, interest, and other factors are accounted for).⁹ Oxfam also reports significant inaccuracies in how the climate component of broader development projects is counted. Taking these issues into account, Oxfam estimates that “*public climate-specific net assistance*” during the 2017-2018 period is much lower, around US\$ 19-22.5 billion.

Such differences in the calculations by different entities can erode trust and have a lasting impact on the climate change negotiations. While agreement on the finer details of what should count as climate finance may be difficult, agreement on the broad parameters is critical. A discussion on what can be included as climate finance, to narrow down the definition of climate finance, will however almost certainly be controversial and cause further acrimony. One way to avoid controversy may be to limit future climate finance pledges under the UNFCCC to only the public funds that will flow through the UNFCCC Financial Mechanism.

While the UNFCCC can influence external trends – for instance, encourage Parties to ensure that overall financial flows are “*consistent with pathways towards low greenhouse gas emissions*” as stated under Article 2.1(c) of the Paris Agreement, or to provide policy signals to the private sector – a broad, loose, and all-inclusive definition of climate finance runs the very real risk of burning up the remaining trust quotient between countries, and derailing the climate negotiations.

- Climate finance should be governed by bodies that have equal representation from developed and developing countries.
- Climate finance should be needs-based, and encourage strong country ownership in its use.

Outside the UNFCCC, meanwhile, some academics describe climate finance in the context of a “climate debt” owed by the countries that are historically responsible for the harmful emissions, in particular to countries that are suffering the worst impacts of climate change.¹⁰

WHAT IS THE HISTORY OF CLIMATE FINANCE UNDER THE UNFCCC?

In 1987, the World Commission on Environment and Development (WCED), also known as the Brundtland Commission, proposed a special fund for the environment. WCED therefore recommended the consideration of “automatic” sources of funding for the environment fund, such as taxes on international trade, as traditional (voluntary) contributions by developed countries were recognised as unpredictable.¹¹

A flood of proposals for such a fund followed from developed and developing countries. This included, for instance, a proposal from some developing countries for the creation of a “planet protection fund” under the UN, with UN member states contributing 0.1% of their gross domestic product.¹²

Eventually, the WCED recommendation resulted in an agreement to establish the Global Environment Facility (GEF) in 1990, based on a proposal from developed countries. The GEF relied on voluntary contributions from countries, and was governed through a tripartite arrangement between the World Bank, the UN Environment Programme (UNEP), and the UN Development Programme (UNDP).¹³

At the same time, in 1990, 137 countries attending the [Second World Climate Conference](#) in Geneva agreed to negotiate a global climate change treaty. They agreed that:

“Developing countries will, in some cases, need additional financial resources for supporting their efforts to promote activities which contribute both to limiting greenhouse gas emissions and/or adapting to the adverse effects of climate change, while at the same time promote economic development.”¹⁴

During the negotiations of the Intergovernmental Negotiating Committee (INC) responsible for drafting the Convention, Vanuatu, on behalf of the Alliance of Small Island States (AOSIS), proposed an international fund to support measures to address the impacts of climate change, and an insurance pool to provide insurance against sea level rise in Small Island Developing States (SIDS). Revenue for the insurance pool would come from mandatory contributions from developed countries.¹⁵ While neither an insurance pool nor a global fund was incorporated into the Convention, insurance was acknowledged:

“Parties shall give full consideration to what actions are necessary under the Convention, including actions related to funding, insurance and the transfer of technology, to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and/or the impacts of the implementation of response measures...” (UNFCCC Article 4.8 – see also *Pocket Guide to Loss and Damage under the UNFCCC*).

Other key climate finance-related controversies during the negotiations for a global convention under the INC related to governance arrangements; whether the provision of funds should be obligatory or voluntary for developed countries; whether funding should be provided on a grant or loan basis; and whether climate finance should be “additional” to

other forms of finance provided by developed countries to developing countries.

Developed countries wanted the newly formed GEF to administer or manage climate finance with guidance from the Parties to the Convention, while developing countries wanted a separate financial mechanism under the authority of the Parties to the Convention, governed by both beneficiaries and contributors. The latter felt the GEF was based on the donor-dominated model of the World Bank. Eventually, however, they agreed to a modified and reformed GEF as an operating entity of the financial mechanism.

Developing countries also wanted contributions to be obligatory, while developed countries wanted the contributions to be voluntary. The former called for “...*the financial resources to fulfil the objectives of this convention...on an adequate and predictable basis without adversely affecting existing economic assistance inflows...*”¹⁶

► UN FRAMEWORK CONVENTION ON CLIMATE CHANGE

The Convention text adopted in 1992 at UNCED reflects this common understanding, approaching finance from the perspective of meeting the needs and costs of developing countries’ climate actions. Finance under the Convention is guided by Articles 3, 4, 11 which identify principles, commitments, and an operational mechanism (see [Annex](#)).

Articles 3.1 affirms that all Parties “*should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse*

effects thereof". As noted earlier, the CBDR-RC principle plays a central role in the discussions on climate finance.

Article 4.3 states:

"The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1. They shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article. The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties."

Article 12.1 relates to the submission of information related to implementation of the UNFCCC, including a national inventory. Article 11 relates to the Financial Mechanism of the UNFCCC.

An important element of Article 4.3 of the Convention is its reference to "*new and additional financial resources*", commonly referred to as the concept of additionality. The concept seeks to differentiate ODA from climate finance. Developing countries maintain that the concept of additionality means that climate finance must be over and above public funds that have been allotted for ODA, which should not be reduced or reallocated for climate change purposes; and that the amount of climate finance provided should be commensurate to the gravity and complexity of the problem. Financial flows under the

Convention are also differentiated from ODA by developing countries to signal that eligibility criteria for access to climate finance should be determined by all Parties to the Convention, and not by developed countries alone.

The reference to “*agreed full incremental costs*” refers to additional (or “incremental”) costs on countries beyond the costs that are strictly necessary for achieving their own development goals, and result in benefits to the global environment as well. For instance, if a country chooses to use solar energy technology in a situation where a less costly coal-fired power generator would have been sufficient to generate the electric power needed for development, this choice reduces greenhouse gases that would be emitted by the coal-fired power plant, but imposes an additional or incremental cost on the country. The “incremental cost” is associated with the global environmental benefit of reduction in greenhouse gas emissions.¹⁷

The reference to “*adequacy and predictability in the flow of funds and the importance of appropriate burden sharing*” in Article 4.3 is also important, and is discussed often in the context of the volume of funds made available as climate finance.¹⁸

UNFCCC Article 4.7 states that:

“The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.”

This Article links action by developing countries to the financial resources and technology transfer provided by

developed countries, while emphasising that economic and social development and poverty eradication will be overriding priorities for developing countries.

Article 11, on the Financial Mechanism, defines a “*mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology*”. It also states that the Mechanism shall:

- Function under the guidance of and be accountable to the Conference of the Parties (COP), which shall decide on its policies, programme priorities and eligibility criteria related to this Convention.
- Be entrusted to “*one or more*” existing international entities. Developing countries thus retained the option of having more than one operating entity, and of a dedicated climate fund becoming an operating entity of the Financial Mechanism of the Convention in future.
- Have an equitable and balanced representation of all Parties within a transparent system of governance.

Article 21.3 nominates the GEF as an operating entity of the Financial Mechanism on an interim basis, and calls for it to be “*appropriately restructured and its membership made universal*”.

In response to this call, the [Instrument for Establishment of the Restructured Global Environment Facility](#) was formally adopted in March 1994. The restructuring included, among other things, a restructuring of its governance. A GEF Council was established, with 32 members – 14 from contributing countries, 16 from developing countries, and two from economies in transition. The Instrument calls for decision-making by consensus by the GEF Council. Where this is not possible any Council member can call for a vote – however, voting is through a double majority system, with an affirmative vote representing

both a 60 percent majority of the total number of participants and a 60 percent majority of the total contributions. Developing countries did not feel that this satisfied the call for “*equitable and balanced representation*” in Article 11.2.¹⁹

The Instrument has further been amended by subsequent GEF Assembly meetings (which are attended by representatives of all participant countries, not just Council members) in 2002, 2006, 2010, 2014, and 2018.

► COP3, KYOTO PROTOCOL

The UNFCCC did not include specific commitments for countries to take climate action, and so the need for a further instrument under the UNFCCC was recognised at COP1 in Berlin. An Ad hoc Group on the Berlin Mandate was established to negotiate a timetable for emissions reductions by developed countries. This resulted in the adoption of the *Kyoto Protocol* in 1997. The Protocol included two significant elements related to climate finance:

- Article 11.2(a) reiterates the UNFCCC’s call for developed countries to provide the “*agreed full costs*” incurred by developing countries to prepare their national inventories. Article 11.2(b) calls for developed countries to provide “*the agreed full incremental costs*” to implement UNFCCC Article 4.1 (which lists general national measures related to mitigation and adaptation for all Parties). It also specifies that implementation of Article 4.1 shall take into account the need for adequacy and predictability in the flow of funds, and appropriate burden sharing among developed country Parties.
- Article 12.8 calls for a “*share of proceeds*” from certified project activities under the Protocol’s *Clean Development Mechanism* (CDM), to be used to cover administrative

expenses, and “to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation”. This led to the creation of the Adaptation Fund (see section on UNFCCC climate finance architecture).²⁰

► COP4, BUENOS AIRES PLAN OF ACTION

COP4, in Buenos Aires in 1998, the Buenos Aires Plan of Action recognised the GEF as “an” operating entity of the UNFCCC’s Financial Mechanism (Decision 3/CP.4) following its restructuring, leaving the option open for other operating entities in future, in line with Article 11.3.²¹ It was agreed that the Financial Mechanism will be reviewed every four years.²²

It was also decided at COP4 that the GEF should provide funding for adaptation response measures for “Stage II adaptation activities” to developing countries and facilitation of access to information; and meet the agreed full costs of preparing initial and subsequent national communications.²³ (At COP1 in Berlin, a three-stage approach to adaptation was agreed: Stage I would include planning; Stage II would include measures to prepare for adaptation activities, including capacity building; and Stage III would include measures to facilitate adequate adaptation, including insurance. See *Pocket Guide to Adaptation under the UNFCCC*).²⁴

► COP5, BONN

At COP5 in 1999, it was decided that financial and technical support for capacity building in developing countries, in particular Least Developed Countries (LDCs) and SIDS, should be provided through the financial mechanism and bilateral and multilateral agencies (Decision 10/CP.5).²⁵

► COP6, THE HAGUE

At COP6 in 2000, disagreements on funding and the GEF continued to be controversial, and were one of the key reasons why the COP was suspended without agreement, with a decision to resume the session as COP6-bis in July 2001.

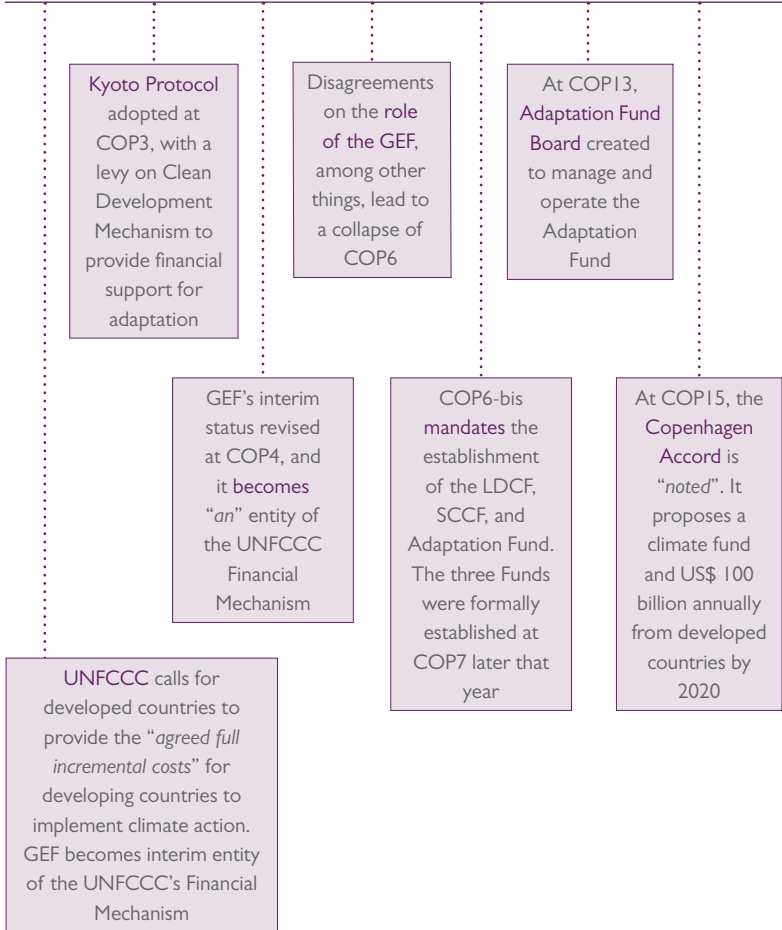
Disagreements on finance related to the types of adaptation activities the GEF should fund, and modalities for such funding; whether the GEF should fund capacity building for disaster preparedness and disaster management, and for the establishment or strengthening of early warning systems for extreme weather events; and whether the GEF should be the only channel for funding in certain areas, including technology transfer.²⁶

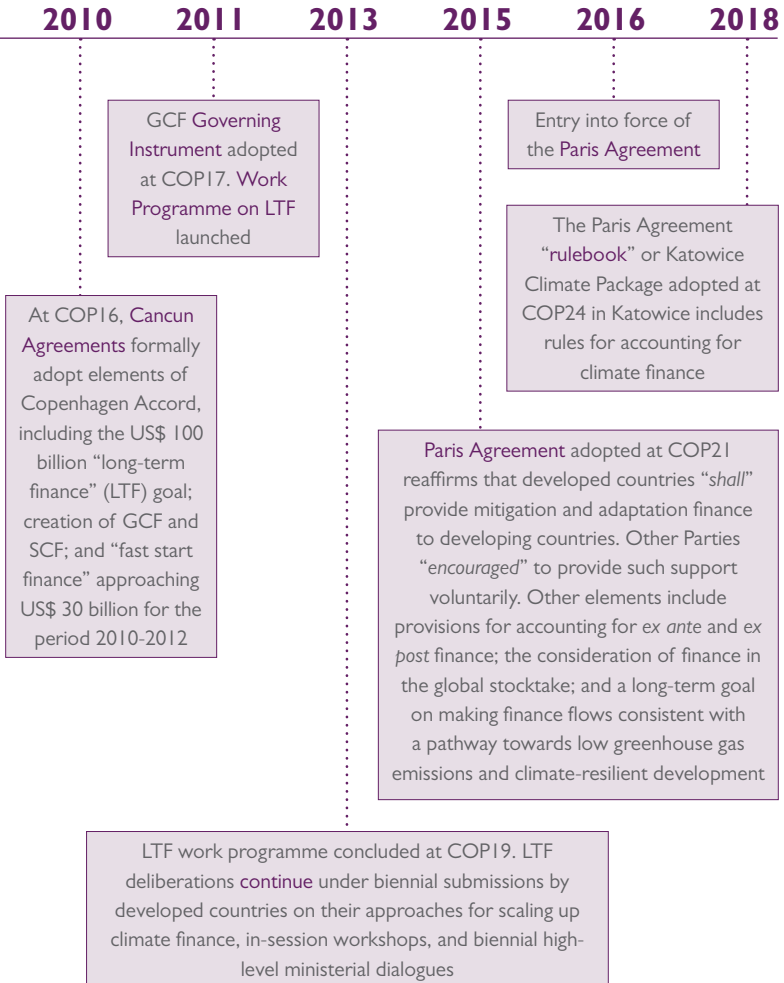
Developing countries also raised concerns regarding the governance arrangements of the GEF, including: its voting procedure, wherein only contributors to the Fund have more voting rights than non-contributors; its administration of finance for other Conventions, with climate being only one of its funding windows; its Governing Instrument, which only provided for mitigation support; and long bureaucratic processes which added up to years of delays before the release of any funds.

In an attempt to make progress, COP President Jan Pronk proposed creating an Adaptation Fund, a Convention Fund, and a Climate Resources Committee, and increasing resources for climate change funding. He proposed that the Adaptation Fund would be a new fund under the GEF to finance Stage III activities with finances generated by the 2% share of proceeds on the CDM. The Convention Fund would be a window under the GEF, with new and additional funds from Annex II Parties in the form of the GEF's third replenishment, voluntary contributions, and transferral of a certain percentage of Annex

TIMELINE

1992 1997 1998 2000 2001 2007 2009





II Parties' initial assigned amount (from Emissions Trading under the Kyoto Protocol) to the registry of the fund. Pronk also proposed increasing resources through other channels, with the aim of reaching an annual level of US\$1 billion by 2005. If this level was not reached, a levy would be applied on Joint Implementation and/or emissions trading, two carbon trading mechanisms primarily for developed countries under the Kyoto Protocol. According to this proposal, contributions were to be apportioned between Annex I Parties based on their relative share of 1990 carbon dioxide emissions, with Annex I Parties not included in Annex II of the UNFCCC contributing half their proportionate share. It further proposed the establishment of a Climate Resources Committee at COP7 to give advice to existing financial channels and institutions, such as the GEF and regional development banks, focusing on how to increase climate funding, mainstreaming, and monitoring and assessment.²⁷

The proposals were rejected by many Parties, including the US, which had just announced its decision not to ratify the Kyoto Protocol. Japan did not wish to subscribe to any quantified commitment. Annex I Parties not included in Annex II referred to UNFCCC language putting financial obligations only on Annex II Parties. No agreement was possible despite 36 hours of intense talks, and decision was deferred COP6-bis.²⁸

► COP6-BIS, BONN

The failure of COP6 put countries under considerable pressure to get things back on track, and retrieve the global climate negotiations. As a result, Parties, particularly developed countries, came prepared to make concessions at COP6-bis. For instance, a joint political Bonn Declaration was made by the EU, Canada, Iceland, New Zealand, Norway, and

Switzerland at COP6-bis to contribute US\$ 450 million (€410 million) annually by 2005, and to review this level in 2008 (see **Box 2**).

Discussions continued on issues discussed at COP6, including the implications of relying on sources of information other than national communications to determine funding for adaptation action; and proposals on funding, including whether financial contributions should be voluntary or mandatory (where the former view prevailed). The specific concerns of LDCs were also front and centre.

As part of the **Bonn Agreement**, the following finance-related decisions were taken:

- The GEF would fund the implementation of “*stage II adaptation activities, ... that build upon work done at the national level, either in the context of national communications or of in-depth national studies, including national adaptation programmes of action (NAPAs)*”.
- The GEF would provide financial support to implement the capacity-building framework (see *Pocket Guide to Capacity Building under the UNFCCC*).
- There is a need for funding, including funding that is new and additional to contributions which are allocated to the climate change focal area of the GEF and to multilateral and bilateral funding, for the implementation of the Convention.
- Predictable and adequate levels of funding shall be made available to non-Annex I Parties.

BOX 2: Transparency in the climate finance negotiations

In The Hague and subsequently at COP6-bis in Bonn, developing countries called for a specific, quantified commitment from developed countries to provide “*new and additional resources*” for climate change activities. While broad agreement was not possible, a joint Bonn Declaration to contribute US\$ 450 million (€410 million) annually by 2005 was made at COP6-bis by 20 countries (the 15 Member States of the EU in 2001 and five other countries).

The Declaration does not specify how much financial support is pledged by each of the signatories. However, at the time the declaration was made, there was an understanding between the EU and the other signatories, roughly based on the emissions-based allocation method initially proposed by the COP President, on their respective share of the total financial commitment. According to this understanding, the EU’s share amounts to US\$ 369 million.

A 2009 study by the Institute for European Environmental Policy sought to assess whether the EU met this commitment.²⁹ The study concluded that the average annual level of financial support to developing countries collectively provided by the 15 EU Member States through specific multilateral climate change related funding channels fell well short of the level of US\$ 369 million.

The study also found that the information provided in National Communications was insufficient to enable even an informed observer to make a reliable judgment about the volume of aid “*additional to 2001 levels*” that was effectively provided in 2009, and a higher quality and consistency of information would be required for independent verification.

This example points to key recurring themes that continued to dog the climate finance negotiations for years to come: the lack of mutually agreed metrics to count climate financial contributions; the lack of sufficient transparency, both to count overall climate finance, and to count “*new and additional*” funding for climate activities; and the ensuing lack of trust between contributors and recipients of climate finance, which have had a creeping effect on other areas of negotiation under the UNFCCC.

The 2008 review promised in the Bonn Declaration took place in the context of the Fourth Review of the Financial Mechanism, with Parties consequently requesting the GEF to “*continue improving its modalities to increase the responsiveness, effectiveness and efficiency of its support*”.³⁰

- The level of GEF replenishments will be increased.
- Three new funds will be established: a Special Climate Change Fund (SCCF); LDC Fund (LDCF); and Adaptation Fund.
- Modalities for burden sharing among Annex II Parties need to be developed.
- Annex II Parties shall report on their financial contributions on an annual basis, and these reports will be reviewed by COP annually.

The GEF was requested to further streamline its project cycle and minimise the time between the approval of project concepts, the development and approval of the concepts to projects, and the disbursement of funds for implementation. It was requested to make project preparations simpler, more transparent and country-driven; and to urge its implementing/executing agencies to be more responsive to requests for GEF assistance.³¹

Special Climate Change Fund

The SCCF was **established** to finance activities, programmes and measures in the following areas:

- Adaptation.
- Transfer of technologies.
- Energy, transport, industry, agriculture, forestry, and waste management.
- Activities to assist developing country Parties whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products to diversify their economies.

Annex II Parties, and “*other Parties included in Annex I that are in a position to do so*”, were invited to contribute to the Fund. It was also agreed in The Hague that the SCCF “*shall be operated by an entity entrusted with the operation of the financial mechanism*”, under the guidance of COP.³²

LDC Fund

The LDCF was established to support a work programme for the Least Developed Countries (the LDC Work Programme), including the National Adaptation Programmes of Action (NAPAs), which identified urgent and priority adaptation needs of LDCs (see *Pocket Guide to Adaptation under the UNFCCC*).³³ The COP agreed that the LDCF “*shall be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the COP*”.³⁴

Adaptation Fund

The Adaptation Fund was established under the Kyoto Protocol to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol. It was decided that the Adaptation Fund shall be financed from the 2% share of proceeds on the CDM project activities, and other sources of funding. Annex I Parties that intend to ratify the Kyoto Protocol were also invited to provide funding.

It was decided in The Hague that the Adaptation Fund shall be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention, under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).

► COP7, MARRAKECH

The finance-related decisions that were agreed to COP6-bis were adopted at COP7 in late 2001. The *Marrakech Accords* formally established the SCCF, LDCF, and Adaptation Fund.³⁵

► COP8, NEW DELHI

At COP8 in 2002, *calls for* the GEF to make its project cycle “*simpler and more efficient*” were reiterated. The GEF was also requested “*to make the concept of agreed incremental costs and global benefits more understandable, recognizing that the process for determining incremental costs should be transparent, flexible and pragmatic*”.³⁶

Guidance was provided to the GEF for the operation of the SCCF (*Decision 7/CP.8*). However, agreement was not possible on issuing detailed guidance to the GEF for the operation of the LDCF. The GEF was requested, however, to “*ensure the speedy release and disbursement of funds and timely assistance*” for the preparation of NAPAs.³⁷

► COP9, MILAN

At COP9 in 2003, further guidance was issued to the GEF for the operation of the LDCF and SCCF. In guidance related to the LDCF, the COP requests the GEF to take into account various elements when developing operational guidelines for funding the implementation of NAPAs, including equitable access by LDCs to funding for the implementation of NAPAs; and criteria for supporting activities on an agreed full-cost basis, taking account of the level of funds available (*Decision 6/CP.9*).³⁸

► COP10, BUENOS AIRES

At COP10 in 2004, AOSIS, the Africa Group, LDCs, and others expressed concern that the most vulnerable countries face difficulty in accessing GEF funds due to the burden of co-financing requirements, the existence of additional criteria and indicators not adopted by the COP, and the narrow scope of adaptation projects eligible under the GEF. They highlighted difficulties in finding adequate co-financing, and with the costly and cumbersome calculation of the incremental costs of adaptation. The LDCs further expressed concern over GEF co-financing requirements, noting that Decision 6/CP.9 provides for full funding of NAPAs. They were unable to secure a decision for full-cost funding for adaptation, but the Least Developed Countries Expert Group (LEG) was requested to report on potential technical and financial difficulties that LDCs may have in the implementation of NAPAs (Decision 4/CP.10).³⁹

► COP11, MONTREAL

As the implementation guidelines for the Kyoto Protocol to come into effect were finalised at COP11 in 2005, discussions started on the governance arrangements for the Kyoto Protocol's Adaptation Fund under the CMP. A key area of discussion was whether the GEF should serve as the financial mechanism for the Fund — developing countries opposed this arrangement, while many developed countries supported it. Developing countries favoured a governing structure and a cooperative partnership founded on an UN-style majority-based decision-making process, as they believed that a programme established and controlled by higher-income donor countries under the framework of the Multilateral Development Banks was not in their best interest.⁴⁰

Meanwhile, in the discussions on the flexible mechanisms of the Kyoto Protocol, developing countries called for a levy on proceeds from Joint Implementation projects and emissions trading to the Adaptation Fund.

► COPI2, NAIROBI

Discussions on the operationalisation of the Adaptation Fund continued under CMP2 in 2006. Developing countries called for the Fund to be under the direct authority of the CMP; cover the full costs of adaptation; promote decentralised access; be authorised to mobilise additional resources; and reduce barriers to access funding.

It was eventually agreed that the Adaptation Fund should operate under the authority and guidance of, and be accountable to, the CMP (Decision 5/CMP.2). It was agreed that the governing body of the Adaptation Fund shall be from Parties to the Kyoto Protocol, follow a one-country-one-vote rule, and have a majority of Parties not included in Annex I to the Convention. It was also agreed, among other things, that:

- Funding will be provided on full adaptation cost basis.
- Eligible countries should have access to the fund in a balanced and equitable manner.
- Funding will be available for national, regional and community level adaptation activities.
- The modalities will ensure facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities.

The Subsidiary Body for Implementation (SBI), which assists the COP in the assessment and review of the effective implementation of the Convention, was requested to develop

recommendations on the institutional arrangements for the Fund, eligibility criteria, etc.

Issues related to the GEF's performance and adherence to the COP's guidance continued to dog discussions on the guidance to the GEF. Developing countries expressed numerous concerns relating to the GEF's *Resource Allocation Framework* (RAF) adopted in 2005, conditionalities of funding, and the replenishment process. They opposed, in particular, the ranking and categorisation of recipient countries without full transparency, resulting in the exclusion of some countries without any clear basis.⁴¹ A *mid-term review* of the RAF in 2008 subsequently found that the RAF led to the “*diminished... effectiveness of the GEF in the delivery of global and regional environmental benefits*”.⁴² Another major area of disagreement was whether adaptation or mitigation activities should be assigned a higher priority and greater share of financing. The US and EU favoured mitigation, but developing countries highlighted adaptation as the key concern for developing countries.

Decision 2/CP.12 calls on the GEF, among other things, to give due priority to adaptation activities in accordance with the guidance provided by COP; and to recognise and respond to the challenges faced by LDCs and SIDS in accessing GEF funding. The COP also called on GEF to further simplify procedures; explore options to address developing countries' concerns on co-financing; and report on resources available to each developing country under the RAF (*Decision 3/CP.12*).

This Decision further called on the UNFCCC secretariat to prepare:

- A technical paper reviewing the experience of international funds and multilateral financial institutions and other sources of funding that is relevant to address current

and future investment and financial needs of developing countries.

- A report, with GEF, on the assessment of the funding necessary to assist developing countries meet their climate commitments.⁴³

► COPI3, BALI

As the negotiations on the implementation guidelines for the Kyoto Protocol concluded in Montreal in 2005, global attention had shifted to the post-2012 period, when the Kyoto Protocol's first commitment period would expire. COP13 in 2007 therefore focused on establishing a two-year "Bali roadmap" to finalise a post-2012 regime by December 2009. Under the UNFCCC, the discussions focused on how to follow up on the "Dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention". Under the Protocol, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP), established at COP11, considered a timetable for determining Annex I commitments for the post-2012 period (see Introduction in the *Guide to the Paris Agreement*).

As part of this discussion, the pressure increased on developing countries to take on mitigation commitments. Following difficult negotiations, it was *agreed* that the track on long-term cooperative action will consider Nationally Appropriate Mitigation Actions (NAMAs) by developing countries, "*supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner*". This clearly stated the link between mitigation action by developing countries, and the provision of what came to be known as "means of implementation" – technology, financing, and capacity building.⁴⁴ While this link was important, there

was still no mutually agreed methodology or process on which to base the measurement, reporting, and verification of the support provided, or to link it to NAMAs.

Arrangements for operationalising the Adaptation Fund were also finalised in Bali by the CMP. It was agreed that the operating entity shall consist of “*the Adaptation Fund Board serviced by a secretariat and a trustee*”. The Board will supervise and manage the Fund, under the authority and guidance of, and fully accountable to, the CMP. It was agreed that the Board shall comprise 16 members representing Parties to the Protocol, with two representatives from each of the five UN regional groups, one from SIDS, one from the LDCs, two non-Annex I Parties, and two Annex I Parties. Decision making is to be by consensus, and, in the event of no agreement, by two-thirds majority. The Decision includes an invitation to the GEF to provide secretariat services to the Board on an interim basis, and an invitation to the World Bank to serve as a trustee, also on an interim basis. These institutional arrangements would be reviewed after three years.⁴⁵

The UNFCCC secretariat’s technical paper, *Investment and Financial Flows to Address Climate Change*, was released in 2007 before COP13.⁴⁶ It found that while the additional estimated amount of investment and financial flows needed in 2030 to address climate change is large compared with funding currently available under the Convention and its Kyoto Protocol, it is small in relation to global gross domestic product (0.3-0.5%) and global investment (1.1-1.7%). It concluded that since private sector investments constitute the largest share of investment and financial flows to address climate change (86%), such flows should be taken into account in future. This resulted in a shift in the dynamic of the discussion on climate finance, with much more emphasis on private sector

finance. The **Bali Action Plan** called for the consideration of “*public- and private-sector funding and investment, including facilitation of climate-friendly investment choices*”. It also called for consideration of, among other things:

- Improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing countries.
- Innovative means of funding to assist developing countries that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation.
- Financial and technical support for capacity building in the assessment of the costs of adaptation in developing countries, in particular the most vulnerable ones, to aid in determining their financial needs.

An Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) was established to consider these elements, and complete its work in 2009, in time for COP15.

► **COPI4, POZNAN**

Once again in Poznan in 2008, developing countries **expressed their concern** with the GEF’s RAF, access to funds, co-financing requirements, and transparency of the GEF process. The LDCs also highlighted concerns in relation to insufficient resources in the LDCF, and the long and complicated process of implementing NAPAs. The GEF was once again requested to address these concerns.

In discussions on financing under the AWG-LCA, meanwhile, developing countries said the difficulties with the current arrangements illustrate that they do not work – they

called for a new financial architecture for the post-2012 period. The US, EU, Canada, and Australia wanted the new financial framework to be built on existing institutions.

► COP15, COPENHAGEN

As the COP15 deadline approached, the pressure was on the AWG-KP and AWG-LCA to conclude their discussions. Five AWG sessions took place in 2009, in April, June, August, October, and November. As one of the key building blocks of the Bali Action Plan, climate finance figured large in each of these.

A number of innovative proposals were put forward, including a proposal by Mexico for a Green Fund financed by assessed contributions by developed countries; a proposal by Norway to raise financing using revenues from the auctioning of carbon credits; and a proposal by Switzerland for a carbon tax of US\$2 per tonne of carbon dioxide. Developing countries called for a commitment of 1% of GDP for climate finance from developed countries. Finance was also a crosscutting issue in other AWG-LCA discussions, including adaptation, technology, and capacity building.⁴⁷

On institutional arrangements for climate finance, developing countries continued to push for a new operating entity under the authority and guidance of the COP, with balanced geographical representation and direct access to funds, while developed countries mostly called for the use of existing institutions. Developed countries preferred existing institutional arrangements, with some new elements such as a facilitative platform, proposed by Australia, to link funding to actions and enable contributors and recipients to navigate new funding arrangements. In addition, the EU supported a high-level forum or body to provide an overview of the international distribution of financial flows.

While the discussions were not entirely split along developed/ developing country lines, there were some issues where such a division came into sharp focus – for instance, whether funds should be derived from strictly public sources or a mix of both public and private sources; on the institutional arrangements for climate finance; and whether financing outside the framework of the financial mechanism should be acceptable.

Well known positions were also reiterated, including on additionality of climate finance, adequacy, predictability, and a focus on public rather than private sources of finance. While finance for NAMAs was a key area of the finance discussions, finance also came up in the context of other areas discussed by the AWG-LCA – in particular, developing country calls for adaptation finance to match mitigation finance were growing. There were also discussions on whether developing countries should contribute to climate finance, as developed countries *advocated* contributions from all countries except LDCs.

By the time COP15 took place in December 2009, finance remained one of the most controversial issues. Like many other issues, it was mainly dealt with at the political level in closed meetings. The COP however ended in disarray, as countries objected to a “Copenhagen Accord” negotiated behind closed door meetings by a small group of Heads of State and Government and ministers, and announced by the COP President without consulting with all Parties. Eventually, the COP simply “*took note*” of the Accord without adopting it, and the COP ended without agreement on a post-2012 framework (see **Box 3**). The mandate of the AWG-LCA was

BOX 3: Climate finance in the Copenhagen Accord

The *Copenhagen Accord*, noted but not adopted at COP15, included the following provisions on climate finance:

- Scaled up, new and additional, predictable and adequate funding as well as improved access for developing countries, to enable and support enhanced action on mitigation, including substantial finance to reduce emissions from deforestation and forest degradation (REDD-plus), adaptation, technology development and transfer, and capacity building.
- The provision of new and additional resources, approaching US\$ 30 billion for the period 2010-2012.
- A goal for developed countries to jointly mobilise US\$ 100 billion a year by 2020, from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.
- Balanced allocation of funds for adaptation and mitigation. Prioritised funding for adaptation for the most vulnerable developing countries, such as the LDCs, SIDS, and Africa.
- New multilateral funding for adaptation delivered through effective and efficient fund arrangements, with a governance structure providing for equal representation of developed and developing countries.
- A significant portion of such funding will flow through a Copenhagen green climate fund, established as an operating entity of the financial mechanism of the Convention.⁴⁸

► COP16, CANCUN

Following the failure to reach agreement in Copenhagen, Parties were keen to rescue the multilateral climate regime in Cancun. A further four intersessional meetings took place in 2010, before Parties met in Cancun for COP16. Many of the finance-related elements of the Copenhagen Accord were discussed further in Cancun, including fast-start finance, long-term finance, the proposed new fund, and a proposed new body under the COP to assist with the financial mechanism and delivery of climate financing.

On fast-start finance, developing countries called for greater transparency, including whether funding is genuinely new and additional, whether it is evenly allocated between adaptation and mitigation, and how much had been disbursed in 2010.

On long-term finance, developing countries called on developed countries to contribute 1.5% of their GDP to support developing countries, instead of a reference to a commitment of US\$ 100 billion per year by 2020.⁴⁹

On institutional elements, discussions centred on the relationship of the new climate fund with the COP, the composition of its board, which institution should take on the role of trustee, and its overall design. Discussions were also held on the composition of a new body to help the COP with its function of providing oversight to the financial mechanism.

Discussions facilitated by ministers on crunch issues, including finance, took place during the second week of COP. This resulted in the adoption of the [Cancun Agreements](#), which formalised many of the elements of the Copenhagen Accord.⁵⁰ On finance-related elements, Parties:

- Took note of the collective commitment by developed countries to provide new and additional fast-start finance

- approaching US\$ 30 billion for the period 2010-2012, with a balanced allocation between adaptation and mitigation. To enhance transparency on this commitment, developed countries were invited to submit information on their actions in May 2011, 2012, and 2013.
- Decided that scaled-up, new and additional, predictable, and adequate funding shall be provided to developing countries.
 - Established a Green Climate Fund (GCF), as an operating entity of the financial mechanism of the Convention, and under the guidance of the COP. They also agreed that the GCF will be governed by a Board of 24 members, with equal number of members from developing and developed country Parties. The World Bank was appointed interim trustee. A transitional committee was appointed to design further elements of the GCF.
 - Recognised that developed countries commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilising jointly US\$ 100 billion per year by 2020. These funds may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.
 - Decided that a significant share of new multilateral funding for adaptation should flow through the GCF.
 - Decided to establish a Standing Committee on Finance (SCF), to assist the COP in providing oversight to the financial mechanism, improve the coherence and coordination in the delivery of climate finance; rationalisation of the financial mechanism; mobilisation of financial resources, and measurement, reporting, and verification of support provided to developed countries.

Eighteen years after the UNFCCC was signed, developing countries finally achieved their vision of a dedicated climate fund in Cancun.

► COP17, DURBAN

At COP17 in 2011, Parties **considered** the report of the transitional committee established to design the GCF. Discussions focused on the legal status of the GCF; relationship to the COP; the role of private sector financing; establishing the GCF Board; and elaborating a process to establish an interim secretariat to support the Board. The GCF was designated as an operating entity of the UNFCCC's Financial Mechanism, and the **Governing Instrument** of the GCF was adopted, which officially launched the Fund's operations.⁵¹

Parties also launched a **work programme on Long-Term Finance (LTF)**, to contribute to ongoing efforts to scale up the mobilisation of climate finance after 2012 as agreed in COP16.⁵² The work of the LTF was to take place in 2012, and include the analysis of options for the mobilisation of resources from a wide variety of sources, and the climate-related financing needs of developing countries.

In Durban, an Ad-hoc Working Group on the Durban Platform (ADP) was **established**, "*to develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties*". The ADP was expected to complete negotiations by 2015, and the outcome was to come into effect from 2020 onwards (**Decision 1/CP.17**).⁵³

► COP18, DOHA

At COP18 in 2012, Parties reiterated that a significant share of new multilateral funding for adaptation should flow through the GCF, and requested the GCF Board to balance the allocation of GCF resources between adaptation and mitigation activities (Decision 1/CP.18).⁵⁴

The work of the LTF was extended for another year in Doha. The SCF was encouraged to facilitate the participation of the private sector, financial institutions, and academia in its annual forum; and to consider ways to strengthen methodologies for reporting climate finance while preparing the first biennial assessment and overview of financial flows. The SCF was also requested, with the GCF Board, to develop arrangements between the COP and the GCF.

► COP19, WARSAW

The work of the LTF Work Programme concluded in Warsaw in 2013, resulting in the adoption of Decision 3/CP.19 which:

- Requests developed countries to prepare biennial submissions on their updated strategies and approaches for scaling up climate finance from 2014 to 2020.
- Requests the SCF to consider ongoing technical work on operational definitions of climate finance, including private finance mobilised by public interventions, in its biennial assessment.
- Calls on developed countries to channel a substantial share of public climate funds to adaptation activities.
- Decides to continue the discussions on LTF in annual in-session workshops.
- Decides to convene biennial high-level ministerial dialogues on climate finance, starting in 2014 and ending in 2020.⁵⁵

The arrangements between the COP and the GCF were adopted (Decision 5/CP.19). The GCF was requested to submit annual reports to the COP, on the basis of which the COP will issue guidance to the GCF, including on matters related to policies, programme priorities and eligibility criteria.⁵⁶

► COP20, LIMA

At COP20 in 2014, the secretariat was requested to: prepare a compilation and synthesis of the biennial submissions from developed countries, to inform the LTF in-session workshops; organize the annual in-session workshops through to 2020; and prepare a summary report of the workshops for annual consideration by the COP and the high-level ministerial dialogue on climate finance.

The SCF was requested to, among other things, further explore ways to enhance its work on the measurement, reporting, and verification (MRV) of support.

The first *High-level Ministerial Dialogue on Climate Finance* also took place during COP20.

► COP21, PARIS

Work had continued under the ADP on the post-2020 “*protocol, another legal instrument or an agreed outcome with legal force*” since the ADP was established in 2011. A number of controversial issues relating to climate finance came into focus during these discussions. These included:

- The quantum of climate finance to be provided.
- Whether the NDCs should address only mitigation, or also other elements of the ADP mandate, which included finance.

- Whether only developed countries should be asked to contribute to climate finance, or also other “*Parties in a position to do so*”.
- Whether there should be an *ex ante* review of means of implementation.

Developing countries also wanted a clear link between mitigation action carried out by them under the Agreement, and the mandatory provision of finance for this action by developed countries, as agreed in the Bali Action Plan and Cancun decisions.

Despite four further meetings of the ADP in 2015, many of the differences on climate finance (and other issues) persisted when Parties met in Paris later that year. These were eventually overcome, and the Paris Agreement was adopted at COP21.⁵⁷

The Paris outcome includes both the Paris Agreement and its adopting [Decision 1/CP.21](#). This Decision also includes a section on “Enhanced action prior to 2020”, which “*strongly urges developed country Parties to scale up their level of financial support, with a concrete road map to achieve the goal of jointly providing USD 100 billion annually by 2020*” (§114).

In the [Paris Agreement](#), Article 9 addresses climate finance, and finance is also reflected as a crosscutting issue in several other Articles. This includes: Article 2.1(c) on making finance flows consistent with a pathway towards low greenhouse emissions and climate-resilient development; Articles 10.5 and 10.6 (support for technology development and transfer); Article 11.1 (capacity building to facilitate access to climate finance); reporting of financial support provided and received (Article 13); and Article 14 (global stocktake with respect to means of implementation and support). In addition, it was agreed that developing countries shall receive support

to implement the provisions of the Paris Agreement in most subject areas (Article 4.5, 7.13, 13.14, and 15).

In particular, Article 2 encapsulates the primary objectives of the Paris Agreement, framing them in the context of three long-term goals on mitigation, adaptation, and finance. It calls on Parties to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. It also calls for the Paris Agreement to be implemented in line with the principles of equity and common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

Article 9.1 to 9.3: Finance commitments

As noted earlier, developing countries have been arguing from the start that developed countries, because of their historic responsibilities, have an obligation to provide additional financial resources to developing countries. To some extent, this is acknowledged in Article 9.1, which states that developed countries “*shall*” provide financial resources to assist developing countries with respect to both mitigation and adaptation, in continuation of their existing obligations under the UNFCCC. Developing country negotiators, however, did not succeed in establishing binding financial arrangements through, for example, a burden sharing formula for developed countries in the Agreement.

Instead, more specific future financial commitments were dealt with outside the Agreement in [Decision 1/CP.21](#), in particular §§52-64. The Decision states that developed country Parties intend to continue their collective mobilisation goal of US\$ 100 billion per annum (by 2020), first announced in 2009 in Copenhagen, through to 2025. A new collective quantified goal on finance with US\$ 100 billion

as a floor will be agreed before 2025 (§53) – the language in this paragraph does not specify that the goal will be restricted to developed countries. Article 9.2 encourages other Parties that are not developed country Parties (such as emerging economies or other wealthy Parties not listed in Annex I to the UNFCCC) to provide support voluntarily.

Overall, the commitment to provide and raise climate finance is framed in broad non-committal terms (for instance, “*from a variety of sources*” and “*through a variety of actions*”). While Article 9.1 could be interpreted as referring to the provision of finance from public sources, in particular state budgets, Article 9.3 refers to a much wider “*mobilization*” and only notes “*the significant role of public funds*”. (Consistent with the Bali decisions and Cancun Agreements, which recognised all sources of finance but acknowledged that in the context of the intergovernmental process, public finance has a leading role while other sources, such as private finance, are supplementary sources). The last sentence of Article 9.3 also reflects the general expectation that the efforts of Parties in this context will represent a progression in the form of an overall increase in the funds available over time.

Article 9.4: Balance between mitigation and adaptation

Article 9.4 calls for a balance between adaptation and mitigation funding, taking into account country-driven strategies. Similar language featured in the 2009 Copenhagen Accord and the 2010 Cancun Agreements, but the term “*balance*” remains open to interpretation. More specific language proposed in earlier drafts of the Agreement, such as “50:50 allocation” or “equal allocation” were rejected.⁵⁸

Article 9.4 also prioritises the financial needs of developing countries that are “*particularly vulnerable*” to climate change

and have capacity constraints. While the UNFCCC (Article 4.8) recognises the vulnerability of various groups of countries, Article 9.4 only refers to LDCs and SIDS. This reflects language from the Cancun Agreements, except that it excludes Africa. The addition of “*such as*”, however, indicates that they are listed as examples and do not necessarily exclude others.

Article 9.5: *Ex ante* reporting on finance

Article 9.5 requires developed countries to submit biennial communications on their predicted or “*ex ante*” levels of climate finance. While there is an obligation (“*shall*”) to report such information, the information need only be “*indicative*” – not definitive, because the information will be based on projected figures. As available, Parties should indicate relevant amounts (quantitative) of climate finance as well as their nature (for instance loans, grants, guarantees, or other financial instruments). The provision of such information is optional for other Parties.

Article 9.6: Finance and the global stocktake

Article 9.6 makes it clear that information on finance from developed countries will be an integral part of the global stocktake (GST).

Article 9.7: *Ex post* reporting on finance

Article 9.7, which is linked to Article 13 on transparency of support, also requires developed countries to provide information biennially on support actually provided and mobilised through public interventions.

Article 9.8: Institutional arrangements

It was agreed that the Financial Mechanism established under Article 11 of the UNFCCC will also serve as the Financial Mechanism of the Agreement. **Decision 1/CP.21** (§58) determined that the LDCE, the SCCF, and the SCF will serve the Agreement (§61). With regard to the Adaptation Fund established under the Kyoto Protocol, further decisions were required – the Decision only stated that the Fund “*may*” serve the Agreement (§59).

Article 9.9: Access to finance

Article 9.9 mandates the institutions serving the Agreement and their operational entities to develop processes and procedures for accessing support that do not put developing countries with limited resources and capacities at a disadvantage (vis-à-vis other developing countries). **Decision 1/CP.21** also urges these institutions to enhance the coordination and delivery of resources (§64). As is the case for Article 9.4, LDCs and SIDS are specifically mentioned.

The Paris Agreement entered into force in November 2016, very soon after it was agreed. As of October 2020, it was ratified by 189 of the 197 Parties to the UNFCCC.⁵⁹

► COP22 AND CMA1, MARRAKECH

The surprise entry of force of the Paris Agreement in 2016, so soon after it was adopted, meant that the Conference in Marrakech later that year was also the first Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA1). However, while the Paris Agreement provided the broad framework for post-2020 climate action, the details for its implementation still remained to be decided, and, according to the Paris outcome, adopted at CMA1. It was

therefore agreed that CMA1 would not be adjourned, and a second and third session of CMA1 would take place at COP23 and COP24, until the Paris rulebook was adopted.

Elements of the Paris Agreement that needed further work had already been assigned to specific bodies under the UNFCCC like the Ad-Hoc Working Group on the Paris Agreement (APA) that was established in Paris for this task, the SSBI, the Subsidiary Body for Scientific and Technological Advice (SBSTA), and the SCF. For instance, in §57 of [Decision 1/CP.21](#), SBSTA was requested to develop modalities for the accounting of financial resources provided and mobilised through public interventions in accordance with Article 9.7 of the Paris Agreement.

However, there were some “orphan issues” that were listed by countries, but still remain to be assigned. On climate finance, these included elements such as the new post-2025 collective goal on finance, and Article 9.5 on the biennially communication of predicted or “*ex ante*” levels of climate finance by developed countries. On the latter, it was [agreed](#) at COP22 that work would be advanced at COP23 to identify the information to be provided by Parties under Article 9.5 ([Decision 13/CP.22](#)).⁶⁰

CMA1 also [decided](#) that the Adaptation Fund “*should*” serve the Paris Agreement, following and consistent with decisions to be taken at CMA 1-3 that address the governance and institutional arrangements, safeguards, and operating modalities of the Fund ([Decision 1/CMA.1](#)). The US, which was not a Party to the Kyoto Protocol and therefore not part of the Adaptation Fund’s governance, [sought to ensure](#) that: the governing structure includes countries not Party to the Kyoto Protocol; the Fund fits into the post-Paris financial architecture; the Fund’s effectiveness is evaluated; there is

agreement on all sources of funding; and the safeguards policy of the Fund is reviewed.⁶¹

Meanwhile, the report of the Adaptation Fund Board highlighted that the predictability of the Fund's financing “is not secure” because of its reliance on voluntary contributions and the “meltdown” of the carbon market.

On LTF, Decision 7/CP.22 called for in-session workshops on LTF in 2017 and 2018 to focus on experiences and lessons learned from: articulating and translating needs identified in country-driven processes into projects and programmes; roles of policies and enabling environments for mitigation and adaptation finance; and facilitating enhanced access.⁶²

The second High-Level Ministerial Dialogue on Climate Finance took place in Marrakech.

► COP23 AND CMAI-2, BONN

Discussions continued on providing further guidance for the implementation of the Paris Agreement at COP23/CAM1-2 in 2017.

On Article 9.7 discussions under SBSTA, on *ex post* accounting of climate finance, developing countries called for clarification of the definitions of climate finance; “climate-specific” and “climate-related” finance; and “new and additional” finance. They also called for a system for the measurement, reporting, and verification of climate finance; reporting against progression on climate finance; and information on support pledged, approved, and disbursed.

Progress was made on the Adaptation Fund – it was decided that the Fund “shall” serve the Paris Agreement, subject to and consistent with decisions to be taken at CMAI-3. Parties also agreed to consider in 2019 whether “the Adaptation Fund shall serve the Paris Agreement exclusively”; under the guidance of and

accountable to the CMA. Work continued under the APA to address governance and institutional arrangements, safeguards and operating modalities for the Fund to serve the Agreement.

Parties **agreed** to launch stocktakes of pre-2020 implementation and ambition at COP24 and COP25, which would consider the provision of support in the pre-2020 period among other things. Moreover, the Facilitative Dialogue mandated by Paris **Decision 1/CP.21** to take place in 2018, was launched. Dubbed the “Talanoa Dialogue”, it was considered a precursor to the GSTs that will take place every five years from 2023 onwards. It was **agreed** that the dialogue will consider, as one of its elements, the efforts of Parties on action and support, as appropriate, in the pre-2020 period

There were disagreements on where issues related to Article 9.5 (on *ex ante* finance) should be discussed. The issue cut across two agenda items, one under the COP (on the process to identify the information to be provided by Parties in accordance with Article 9.5 of the Paris Agreement); and the other under the APA (on modalities for biennially communicating finance information on the provision of public financial resources to developing countries in accordance with Article 9.5). Developing countries wanted discussions to continue under both, while developed countries felt it was already being dealt with under the COP and therefore it was unnecessary to discuss it under the APA. It was eventually **agreed** that the COP agenda item would be discussed under the SBI, and discussions under the APA would continue.

► COP24 AND CMAI-3, KATOWICE

The Katowice Climate Package, also referred to as the Paris Agreement’s “rulebook” or the Paris Agreement implementation guidelines, was adopted in 2018 at COP24. It adds detail to the Paris Agreement’s more general provisions, and is meant to pave the way for the full operationalisation of the Agreement.

On **finance commitments** (Article 9.1-9.3 of the Paris Agreement), Katowice **Decision 14/CMA.1** calls for deliberations on the new quantified goal to begin at CMA3 in November 2020; and for consideration, as part of these deliberations, of the aim of making finance flows consistent with a pathway toward low GHG emissions and climate-resilient development as envisaged under Article 2.1(c) of the Agreement. This collective quantified goal on finance is to start from a floor of US\$ 100 billion per year, and discussions must take place “*in the context of meaningful mitigation actions and transparency of implementation*”, while taking into consideration the needs and priorities of developing countries.⁶³

In addition, in **Decision 4/CP.24**, the SCF is requested to “*prepare, every four years, a report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement*”, starting in November 2020. Some Parties believe that this report will help in determining target amounts for climate finance mobilisation under Article 9.3 and also Article 11.3(d) of the UNFCCC (funding necessary and available for the implementation of the UNFCCC).⁶⁴

The SCF is also requested to map available information related to Article 2.1(c) and Article 9 of the Paris Agreement every four years as part of its biennial assessment and overview of climate finance flows. This includes the information to be

provided by developed country Parties on the provision and mobilisation of financial resources.

On **Article 9.5 (ex ante reporting of climate finance)**, in **Decision 12/CMA.1** it was agreed that:

- The biennial communications on *ex ante* finance will start from 2020, and the secretariat will establish a dedicated online portal.
- The secretariat will prepare a compilation and synthesis of the biennial communications from 2021 onwards to inform the global stocktake. The secretariat will also organise biennial in-session workshops from 2021 onwards and prepare a summary report on each workshop. All these documents will be considered at CMA4.
- A biennial high-level ministerial dialogue on climate finance will begin in 2021, to be informed by, for instance, the summary reports on the in-session workshops. The CMA President will summarise the deliberations of the ministerial dialogue for consideration by the CMA at its next sessions.
- The COP is also invited to consider the compilations and syntheses and the summary reports on the in-session workshops.⁶⁵

The Annex to **Decision 12/CMA.1** lists the types of information to be provided by Parties in their biennial communications (in accordance with Article 9.5 of the Paris Agreement) with regard to public and other forms of finance. This list may be updated at CMA6 on the basis of experience and lessons learned. For the time being the types of information include, among other things:

- Projected levels of public finance.
- Programmes, including projected levels, channels, and instruments.

- Policies and priorities including regions and geography, recipient countries, beneficiaries, targeted groups, sectors, and gender responsiveness.
- Purposes and types of support (mitigation, adaptation, etc).
- An indication of new and additional resources to be provided.

On **climate finance and the global stocktake** (Article 9.6), the rulebook lists the sources of input on finance for the stocktake (Decision 19/CMA.1). These will include information on:

- Finance flows, at “*a collective level*”.
- Balance and prioritisation (Article 9.4).
- Support provided for technology development and transfer and capacity building (Articles 10.6, 11.3, 13.9).
- Financial, technology transfer, and capacity building support needed and received under Articles 9, 10, and 11 (Article 13.6 and 13.10).
- The secretariat’s compilation and synthesis of the biennial communications on *ex ante* finance is also a source of input for the global stocktake, according to §7 of Katowice Decision 12/CMA.1.⁶⁶

On ***ex post* reporting of support** provided and mobilised through public interventions (Article 9.7), the modalities, procedures, and guidelines (MPGs) for the provision of this information are elaborated in the rulebook, in the MPGs for transparency of action and support under Article 13 (Decision 18/CMA.1, Annex). Other Parties that provide climate finance on a voluntary basis are “*encouraged*” to use these MPGs. The information submitted by Parties will undergo a technical expert review, and a facilitative, multilateral consideration of progress (Article 13.11).⁶⁷

Public interventions are **described** as, for example, grants, loans, equity, guarantee, insurance, policy intervention, capacity building, technology development and transfer, and technical assistance.

While the information from Parties on *ex post* finance is likely to gradually provide a more detailed and comprehensive picture of international climate finance provided, Parties still have significant flexibility in their reporting and decisions about what they consider “*new and additional*”. Parties are allowed to report their financial support at face value although in the case of a partial loan, for example, it may be more relevant to indicate the grant-equivalent value. Despite the flexibility provided, developed countries are also expected to make efforts to enhance the comparability and accuracy of information through the use of international standards or harmonisation with other countries, institutions, and international systems.

On the **institutional arrangements for climate finance** (Article 9.8), under Decisions **13/CMA.1** and **1/CMP.14**, it was decided that the Adaptation Fund will serve the Paris Agreement with respect to all Paris Agreement matters from 1 January 2019. Once the share of proceeds becomes available under Article 6.4 of the Paris Agreement, the Fund shall no longer serve the Kyoto Protocol but continue to receive the share of proceeds, if available, from activities under Articles 6, 12, and 17 of the Kyoto Protocol.⁶⁸

► **COP25 AND CMA2, MADRID**

With the 2020 deadline for the US\$ 100 billion annually promised by developed countries just around the corner, long-term finance was a key issue for COP25 in 2019. Deliberations on long-term finance were taking place under biennial submissions by developed countries on their approaches for

scaling up climate finance, in-session workshops, and biennial high-level ministerial dialogues since the work programme on LTF concluded in 2013. In Madrid, the G77/China proposed a permanent forum to discuss long-term finance, saying the issue needs regular discussion from a strategic perspective. Developed countries objected to mandating the SCF to assess progress, saying it duplicated the SCF's work on biennial assessments, and also opposed extending the current work programme or creating a new forum.⁶⁹

In the closing plenary, G77/China said the draft text proposed by the Presidency, which “*affirms the importance of climate finance and decides to continue discussion on this matter under the COP*” did not reflect agreement reached in consultations the previous night. They requested returning to the Group's understanding of agreed language, which specifies that discussions would continue at the next COP (“*notes the importance to the COP of continued discussions on long-term climate finance and decides to consider the matter at COP 26*”). Agreement was not possible as this wording was opposed by developed countries, and it was decided that Rule 16 will apply. (Rule 16 in the UNFCCC [draft rules of procedure](#) states that an agenda item that cannot be completed at a conference will automatically roll over to the next session).⁷⁰

The African Group wanted the SCF to prepare a synthesis report on the US\$ 100 billion goal, to inform the discussion on setting a new collective quantified goal on finance from a floor of US\$ 100 billion per year, set to begin in November 2020. This was opposed by developed countries. A proposal by the Independent Association of Latin America and the Caribbean (AILAC) to include an overview of the achievement of the US\$ 100 billion goal as part of the biennial assessment was also rejected by developed countries.

In what was perhaps a first, the SCF was unable to agree on the draft guidance to be provided to the operating entities of the Financial Mechanism, and instead forwarded a compilation of submissions.

Discussions were held on the SCF report on the determination of the needs of developing countries related to implementing the Convention and the Paris Agreement, mandated at Katowice. Developing countries wanted to call on the SCF to make this needs assessment “comprehensive”, so it can serve as one of the tools guiding the replenishment of the operating entities. They also wanted to include loss and damage in the needs assessment. Both suggestions were opposed by developed countries. Decision 5/CMA.2 encourages the SCF to present, “to the extent possible”, disaggregated information on climate finance flows and the needs of developing countries, including information on data availability and gaps by sector. On loss and damage, the Decision notes the inputs the SCF has already provided to the technical paper on financial support for addressing loss and damage; and “looks forward” to future input from the WIM, on the SCF’s guidance to the operating entities of the Financial Mechanism.⁷¹

Discussions were also held on the changes needed for the Adaptation Fund to function as an operating entity of the Financial Mechanism under the Paris Agreement. Some developed countries wanted the membership of the Adaptation Fund Board to be revisited. Currently, a majority of the 16 Board members (about 67%) are from developing countries. Developing countries said the COP24 mandate does not include a revision of the composition of the Board, and only refers to its rules of procedure. They wanted the decision to be purely procedural. Other countries called for substantial changes. Japan, for instance, called for the representation of

developed countries to be enhanced, and the Environmental Integrity Group wanted the Board's composition to be revisited depending on the source of funding.

The current language on the composition of the Board refers to two representatives “*from Annex I Parties*”, and two from “*non-Annex I Parties*” (referring to Annex I of the UNFCCC). Some developed countries supported draft text that replaced these references to, respectively, “developed countries” and “developing countries” to reflect the grouping of the Paris Agreement rather than the UNFCCC. This was opposed by developing countries. No agreement was reached, and the discussion will continue at the next session. Meanwhile, in [Decision 3/CMP.15](#) which renews the World Bank's role as interim trustee of the Adaptation Fund, paragraphs related to Board membership were removed due to the ongoing disagreement. A decision was also taken for the GEF to continue to serve as the Adaptation Fund's secretariat. Unlike the past, when the interim roles of both the World Bank and GEF were reviewed periodically, no timeline is established to review their role.⁷²

WHAT IS THE INSTITUTIONAL ARCHITECTURE FOR CLIMATE FINANCE UNDER THE UNFCCC?

The Conference of the Parties (COP), composed of representatives of all the countries that are Party to the Convention, is the supreme decision-making body of the UNFCCC.⁷³ It is responsible for providing guidance to the Financial Mechanism of the Convention, described in UNFCCC Article 11 as “*a mechanism for the provision of financial resources on a grant or concessional basis*”.⁷⁴

Article 11 further states that:

- The Financial Mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance (Article 11.2).
- The COP can entrust the operation of the Financial Mechanism to one or more international entities (Article 11.1).
- The COP and the operating entities shall agree on, among other things, determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed (Article 11.3.d).

These arrangements also apply to the Paris Agreement – Article 9.8 of the Agreement states that “[t]he *Financial Mechanism of the Convention, including its operating entities, shall serve as the financial mechanism of this Agreement*”.⁷⁵

The UNFCCC, and by extension the Paris Agreement, currently have two operating entities: the GEF and the GCF. Both entities are accountable to, and under the guidance of, the COP. The **LDCF** and **SCCF**, two funds established under the Convention, are managed by the GEF under the guidance of the COP.

The Adaptation Fund, meanwhile, was established under the Kyoto Protocol, and is governed by a Board that is accountable to the CMP. It receives its funds from a “share of proceeds” from the Clean Development Mechanism, and from other voluntary sources. However, it has been agreed that the Adaptation Fund will also serve the Paris Agreement, and the Board will be accountable to the CMA in future once the “share of proceeds” from Article 6.4 of the Paris Agreement become available.

► GLOBAL ENVIRONMENT FACILITY

As noted earlier, the GEF, which also serves other multilateral environmental agreements, was restructured in 1994 to address developing country concerns that it was based on the donor-dominated model used for aid governance. Following the restructuring, a GEF Council was established as the Fund’s main governing body, with 32 members – 14 from contributing countries, 16 from developing countries, and two from economies in transition. The Council meets twice annually, to develop, adopt, and evaluate the operational policies and programmes for GEF-financed activities. It also reviews and approves the

work programme (projects submitted for approval), making decisions by consensus.

GEF works through implementing **agencies**, which create project proposals and then manage the projects on the ground. From three implementing agencies when it started (the World Bank, UNDP, and UNEP) the GEF now has 18 international and regional institutions acting as “Project agencies”.⁷⁶

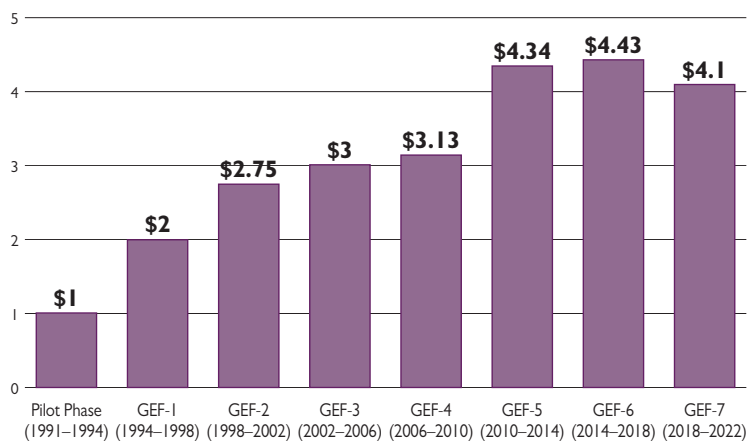
GEF funds are replenished every four years, with the contributions of **40 donor countries** varying over each replenishment. The Fund is in its seventh replenishment cycle (2018-2022), with close to 30 countries jointly pledging US\$ 4.1 billion (see **Figure 1**).⁷⁷ The initial System for Transparent Allocation of Resources (STAR) for GEF7 received US\$ 802 million for climate change.⁷⁸ This reflects a decline over the replenishment cycles – GEF5 **allocated** US\$ 1.36 billion, and GEF6 **allocated** US\$ 1.26 billion.⁷⁹

Since its inception, the GEF **has funded** 1,008 climate change mitigation projects, amounting to US\$ 6.7 billion in over 166 developing countries and countries with economies in transition. It has also provided US\$ 505.8 million in support for 396 “enabling activities”, including National Communications and Biennial Update Reports.⁸⁰

Adaptation is funded through the LDCF and SCCF. From its inception to mid-2020, the LDCF has approved approximately US\$ 1.5 billion for 305 projects, programmes, and enabling activities. This includes the preparation of 51 NAPAs in LDCs, and two global projects. A further US\$ 58 million is available for approval of new projects.

The SCCF, meanwhile, has supported a total of 86 projects worth US\$349.8 million during the same period.

GEF Replenishment Cycles (in billions of USD, for all GEF focal areas)



Over the years, the COP has provided **guidance** to the GEF annually, on new priority areas, and addressing areas of concern. Some guidance has been reiterated, and reflects the ongoing concerns that Parties have raised relating to, among other things:

- Expediting the approval and disbursement of financial resources; and minimising the time between the approval of project concepts, the development and approval of the projects, and the disbursement of funds by implementing/ executing agencies to recipient countries.
- Streamlining the GEF project cycle, to make project preparation simpler, less prescriptive, more transparent and country-driven.
- Simplifying and expediting procedures for the approval and implementation of GEF-funded projects, including disbursements.

- Making the concept of, and the process for, the determination of incremental costs and global benefits more transparent, understandable, flexible, and pragmatic.
- Encouraging the use of national and regional experts and/or consultants to enhance project development and implementation.
- Ensuring that adequate funding is available to enable developing countries to meet their commitments under the Convention.
- Speeding up the process through, for instance, establishing a time frame within which LDCs can access funding and other support for the preparation and implementation of projects identified in NAPAs.
- Clarifying the concept of additional costs as applied to different types of adaptation projects under the LDCF and SCCF.
- Streamlining the LDCF project cycle, particularly during the project preparation stage.⁸¹

In addition, six reviews of the Financial Mechanism have been conducted by the COP, with assistance from the SBI (and from the SCF after it was established) – in 1998, 2002, 2006, 2010, 2014, and 2017. For the GEF, these reviews have reiterated guidance including on making the project cycle simpler and more efficient; making the concept of agreed incremental costs and global benefits more understandable, transparent, flexible and pragmatic, and consistent; and addressing the challenges of LDCs and SIDS in accessing GEF funding.

The Independent Evaluation Office of the GEF has also conducted [six evaluations](#) of the Fund's entire portfolio.

The GEF has responded to the guidance from the COP and the evaluations, including, for instance, by introducing

the **System for Transparent Allocation of Resources (STAR)** in 2009-2010. The STAR, which allocates resources to countries based on objective criteria, replaced the controversial RAF, which was used in the fourth replenishment period of the GEF. STAR is meant to enhance predictability of funding, flexibility in programming, planning at the country level, and country ownership of GEF projects and programmes.

The GEF has revised its project cycle several times to address COP guidance to enhance the approval process, including to: introduce clearer deadlines for project cycle stages; introducing medium-sized projects with streamlined procedures; and adopt the direct access modality to fund enabling activities. In response to the Paris Agreement, the GEF Council established and operationalised the **Capacity-building Initiative on Transparency (CBIT)** in June 2016, with an allocation of US\$ 61.6 million.

The GEF has a **Country Support Program** to capacitate GEF focal points, UNFCCC focal points, Council members and alternates, civil society organisations, and GEF Agencies; and to help them understand the institution and its processes.

► ADAPTATION FUND

When the design of the Adaptation Fund was discussed in 2005 and 2006, developing countries resisted handing over its governance to the GEF, as they feared that many of the problems that they faced in accessing GEF funding would be repeated in the new Fund. Instead, as noted earlier, they **called for** the Adaptation Fund to be under the direct authority of the CMP, have balanced representation from developing countries in its governing body, and have fewer barriers to access funding, including through decentralised access. This issue was discussed at the **2006 ecbi Oxford Seminar**, and an alternative

proposal was developed by developing country participants, which **helped to break** the stalemate in the negotiations.

As a result, it was **agreed** that the Adaptation Fund will be governed by an Adaptation Fund Board that functions under the direct authority of the CMP, and a majority of the 16 Board members (about 67%) are from developing countries. The Board follows a one-country-one-vote rule. While designing the modalities for accessing funds from the Adaptation Fund, efforts were made to ensure short and efficient project development and approval cycles and expedited processing of eligible activities.

The Adaptation Fund pioneered “**direct access**” – countries can get national implementing agencies accredited to access funds directly from the Fund, instead of having to work through multilateral or regional agencies as in the case of the GEF. This new access modality substantially reduces the duration and difficulty of accessing financial resources, allowing developing countries to more easily address adaptation needs and priorities at the national level.⁸² It not only puts national governments and institutions in the driving seat during the design and implementation of projects, but also helps to build national institutional capacity, including to access and manage climate finance from other sources. The Fund has a **Readiness Programme for Climate Finance**, which aims to help strengthen the capacity of national and regional implementing entities to receive and manage climate financing. Additional financial windows, for instance for **innovation grants** and **learning grants**, also exist.

From its inception to 30 June 2020, the Adaptation Fund has received US\$ 1.03 billion from the CDM, pledges and donations, and earned investment income. Of this amount, US\$ 744.58 million has been allotted to adaptation projects

and programmes, and US\$ 63.55 million to administration. US\$ 57 million has not yet been received.⁸³

A key issue has been the declining revenue from the CDM, threatening the sustainability, adequacy, and predictability of funding from the Adaptation Fund. The Fund can receive funds from “other sources” and has received some funding from governments – in 2019, for instance, US \$ 89 million was raised from national and regional governments. This does not keep pace with demand, however, as the Fund had a project pipeline of another US\$ 248 million under development in 2019, and received a further US\$ 268 million in funding requests across 40 new proposals that year.⁸⁴

The Adaptation Fund will transition to exclusively serve the Paris Agreement once it starts receiving funds from the trading mechanisms of the Agreement, and governance arrangements in relation to the Agreement are negotiated.

► GREEN CLIMATE FUND

The GCF was set up in response to calls from developing countries for a Fund that is directly under the authority of the COP, governed by a body with balanced representation from developed and developing countries, and designed to ensure ease of access for developing countries.

The Governing Instrument of the GCF, adopted in Durban in 2011, states, among other things, that the Fund will:

- Be governed by a Board with 24 members, composed of an equal number of members from developing and developed country Parties.
- Take decisions by consensus. The Board will develop procedures for adopting decisions in the event that all efforts at reaching consensus have been exhausted.

- Play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels.
- Provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach.
- Provide access through national, regional, and international implementing entities accredited by the Board.
- Balance the allocation of resources between adaptation and mitigation activities.
- Have windows for adaptation and mitigation, and a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional, and international levels.
- Provide resources for readiness and preparatory activities and technical assistance, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.
- Include gender mainstreaming as an essential decision making element in the distribution of funds.⁸⁵

The Governing Instrument also called on the Board to “*consider additional modalities that further enhance direct access*”, in addition to direct access and international access. (ecbi played a key role in [developing this modality](#) and ensuring its inclusion in the Governing Instrument). In response, the Board developed and launched a pilot “[Enhanced Direct Access](#)” (EDA) modality. The EDA pilot differs from other GCF access windows because individual sub-projects neither

have to be presented in the funding proposal nor subsequently submitted to GCF for approval. Instead, the decision-making mechanism for the sub-projects is devolved to the national level. The EDA seeks to devolve funding to local organisations and other stakeholders, and enable a more flexible and context-specific approach.

As part of its initial resource mobilisation (IRM) in 2014, the GCF raised US\$ 10.3 billion in pledges. Of this, US\$ 8.3 billion was received, and after accounting for variations in exchange rates, US\$ 7.2 billion was available for commitment.⁸⁶ The first replenishment process for the Fund was launched in October 2018 by the GCF Board, for the 2020-2023 period, and as of September 2020, over US\$ 10 billion has been pledged.⁸⁷

The operationalisation of the GCF has been met with many challenges, some of which are similar to those encountered in relation to the GEF, and the COP has issued guidance to the GCF to address these challenges. For instance, [Decision 5/CP.24](#) urges the GCF to speed up the disbursement of funds to approved projects, as does [Decision 9/CP.23](#), which also notes with concern the challenges faced by developing countries in accessing finance, especially for adaptation, and calls for simplified access procedures.

► **STANDING COMMITTEE ON FINANCE**

In addition to a new Fund, developing countries sought a better way for providing oversight to the operating entities of the Financial Mechanism. They felt the existing method, of a Contact Group on Finance under the SBI providing oversight, was inadequate, as the contact group met only for short periods each year, and repeated similar advice to the operating entities. They therefore [proposed](#) a standing committee that would

meet more frequently to provide guidance to the operating entities and assure their accountability; assess the adequacy of climate finance; and track the fulfilment of commitments, including through MRV. (The proposal for such a committee was first developed at the 2010 ecbi Oxford Seminar by developing country Fellows, and presented at the High Level Geneva Dialogue on Climate Finance).

Such a body was established in Cancun in 2010 at the same time as the GCF was formally established, following the debacle at Copenhagen in 2009. The Cancun Agreements established a standing committee to assist the 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*”.⁸⁸

The SCF meets at least twice a year, more if necessary. It is mandated to provide to the COP draft guidance for the operating entities of the Financial Mechanism.

The SCF produces a Biennial Assessment and Overview of Climate Finance Flows. Three assessments have been produced so far, in 2014, 2016, and 2018. The 2018 assessment found that US\$ 2.4 billion was channelled through UNFCCC funds and multilateral climate funds in 2016. Climate-specific finance through bilateral, regional, and other channels was estimated at US\$ 33.6 billion in 2016. The assessment highlighted challenges in collecting, aggregating, and analysing information from diverse sources, data uncertainty, and data gaps.

In Katowice in 2018, the SCF was requested to prepare, every four years, a report on the determination of the needs of developing countries related to implementing the Convention

and the Paris Agreement, for consideration by the COP and the CMA, starting in 2020 (Decision 4/CP.24). Preparations for the first report are underway.⁸⁹

The SCF also organises annual Forums, for the communication and continued exchange of information among bodies and entities dealing with climate change finance, to promote linkages and coherence. An annual theme is chosen and these have varied from mobilising adaptation finance (in 2014), financial instruments that address the risks of loss and damage (in 2016), to financing nature-based solutions (the theme of the next forum, now postponed to 2021).

Finally, the SCF is regularly requested by the COP to prepare reports and/or guidance on relevant issues pertaining to finance flows under the Convention. For instance, in 2013 and 2014, the SCF was requested by the COP to consider ways to increase its work on the MRV of support, beyond the biennial assessment and overview of climate finance flows (Decision 7/CP.19 and Decision 6/CP.20).

WHAT NATIONAL CHALLENGES DO DEVELOPING COUNTRIES FACE WITH REGARD TO CLIMATE FINANCE?

Some of the key challenges relate to accessing climate finance from international sources; ensuring that the funding is used to address national and local priorities; making it work with national sources of finance; scaling up effective models; and ensuring the effectiveness and sustainability of funded actions.

The challenges related to accessing international climate finance have been described already in this Guide. Arduous, complex, and long-drawn procedures for access often mean that countries have to hire consultants, or go through multilateral implementing entities to access funding. Accessing climate finance necessitates meeting policy, institutional, accountability, and budgetary requirements that are difficult to comply with. Working towards building the capacity of governments and relevant partners or organisations in order to comply with such requirements often demands substantial resources on its own. Conditionalities to access funds can be difficult to overcome – such as co-financing requirements, complex project policies, and the lack of standardised requirements among various multilateral and bilateral funding agencies. The multiplicity of channels, all with their own access procedures, itself can prove confusing.

BOX 4: National climate funds

Given the complex global landscape for climate finance, national stakeholders are faced with the challenge of identifying which funds are appropriate for them, how to access resources, how to blend them together, how to coordinate the actions funded by them, and how to develop the methods to monitor and evaluate the results. Requirements, processes, and reporting can differ among the funds.⁹⁰

Establishing a national and sub-national climate funds can simplify the process, and at the same time help to coordinate and blend funding from various sources to ensure that they work together to address national and sub-national goals and priorities.

For instance, the *Indonesia Climate Change Trust Fund* was designed to support Indonesia's national goals of reducing emissions by 41% by 2030 with international support. It is now managed by Indonesia's Planning Ministry, and embedded in a broader national Low Carbon Development Plan. The *Sustainable Island Resource Framework Fund* (SIRFF) in Antigua and Barbuda, meanwhile, is embedded in the Department of the Environment (DOE), and provides microfinance to low income individuals and communities. While some national climate funds focus on all aspects of climate change, like the *Bangladesh Climate Change Trust Fund*, others have a sectoral approach – like the *Amazon Fund* in Brazil for forest-related issues.

National funds can pool both domestic and international climate finance. They can become accredited to the GCF to channel its resources to sub-national entities, and receive funding from bilateral and multilateral institutions. For instance, the Antigua and Barbuda DOE and its SIRFF are accredited to the Adaptation Fund and the GCF.

National revenue sources for such funds can include, for instance, budget allocations; revenue generated from a domestic carbon tax or carbon trading; and revenues from fines for violating climate/ environment laws. Access for sub-national entities can be facilitated through a network of sub-national funds or local “frontier funds”, to support locally-led efforts to build climate resilience, protect carbon sinks, and reduce emissions. Examples include *County Climate Change Funds* in Kenya; the *Dema Fund* in Brazil, which supports indigenous peoples, women, Afro-Brazilians, and subsistence farmers in the Brazilian Amazon; and the *Gungano Urban Poor Fund* which supports low-income urban households in Zimbabwe. Special windows can also be established for access by non-government entities.

While this issue has been addressed to some extent, for instance through the direct access modalities of the Adaptation Fund and GCF, and through the Readiness Funding provided by these two funds to help countries, challenges still remain. LDCs and SIDS, with lower capacities, for instance, still have problem accessing funds. Access to international funding by sub-national entities, both government and non-government, continues to be a challenge. While national implementing entities can play a role in overcoming these hurdles over time, more programmatic and flexible access modalities, like those envisaged under the GCF's EDA modality, can help to channel funds to the local level, and to allow for local determination of priorities.

The priorities of bilateral and multilateral funders don't always align with national and local priorities. This can be at a very broad level – for instance, funders may prioritise mitigation while vulnerable national governments may prioritise adaptation or loss and damage. It can also be very specific – for instance, related to specific mitigation or adaptation approaches.

National governments may also face challenges with reconciling the need to “mainstream” climate finance and make it work with national sources of funding, but at the same time report on it separately, through different reporting procedures determined by funders. Better mainstreaming of climate finance can enhance the changes for greater ownership by governments, and for scaling up of effective approaches.

The ability of a country to utilise climate finance is also affected by its absorptive capacity, or its ability to effectively use the funds. Increasing a country's absorptive capacity includes not only learning how to maximise the potential for raising funds and harmonising these with national or local sources,

but updating national or local policies to optimise the use of climate finance to meet climate change targets and objectives. Absorptive capacity, however, is also determined by the nature of funds that are received, and what they are earmarked for by funders. If such funds are meant to be spent for activities that do not reflect or complement the needs of receiving countries, they are not likely to be absorbed well.

WHAT ARE THE FUTURE CHALLENGES RELATED TO CLIMATE FINANCE?

The biggest challenge for climate finance at the international level has primarily been the scale of resources necessary to address the needs and ambitions of developing countries. Trillions of dollars are needed to address mitigation and adaptation at a global scale – while estimates by different research organisations vary considerably, they range from US\$ 1.8 trillion to US\$ 93 trillion.⁹¹

Recent scientific findings have added another layer to the challenge – a smaller window of time within which resources must be raised, allocated, and used effectively. While the Paris Agreement is looking at a 2050 trajectory for the provision and mobilisation of finance, the Intergovernmental Panel on Climate Change has called for drastic changes by 2030, to keep average global temperature rise “*well below 2°C*” above pre-industrial levels, as called for in the Paris Agreement. The overall global challenge therefore is no longer just the problem of the *scale* of resources necessary to address climate action, but also the *speed* of mobilising these resources over a shorter period of time than initially expected.

The delivery of these resources over a short period of time will also be challenging. Climate funds and other multilateral and bilateral institutions will have to have the capacity to deliver

resources at scale, within a rapidly closing window of time. The way climate finance is delivered, especially to countries that do not have the capacity to put together proposals but have urgent need for climate finance, may have to be reconsidered over time. Programmatic, rather than project-based, funding may be necessary, and the capacity of governments to use the finance effectively and ensure accountability at the same time will have to be rapidly developed.

Implementing Article 2.1(c) of the Paris Agreement poses a broader challenge. All financial flows – not only those that currently come under the category of climate finance – will have to be made consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. This requires leadership on the part of developed countries, not only in demonstrating how this can be done, but also providing the support and means of implementation for this urgent shift to take place in time in developing countries.

At the same time, it is important for developing countries to be included and heard in global institutional frameworks that seek to find new pathways to manage risks, and integrate urgent climate considerations into all dimensions of economic and financial policies. Global partnerships with developing countries that are grounded in understanding, appreciation, and implementation of actions that promote just transitions need to be reinforced.

REFERENCES

- 1 UNGA (1989). *UN Conference on Environment and Development: Resolution Adopted by the General Assembly*. A/RES/44/228.
- 2 United Nations (1992). Rio Declaration on Environment and Development. *Report of the United Nations Conference on Environment and Development*. Rio de Janeiro, 3-14 June 1992. A/CONF.151/26 (Vol. I).
- 3 Agarwal, A., Narain, S. & Sharma, A. (1999). *Green Politics: Global Environmental Negotiations - I*. Centre for Science and Environment, New Delhi.
- 4 Watanabe, R. (2008). *Who should pay for climate protection? Another side of the same coin of burden sharing*. Wuppertal Institute for Climate, Environment and Energy.
- 5 Black-Layne, D. (2020). Personal Communication.
- 6 UNFCCC (2016). *2016 Biennial Assessment and Overview of Climate Finance Flows Report*. p. 20..
- 7 Buchner, B., Clark, A., Falconer, A., Macquarie, R., Meattle, C., Tolentino, R. & Wetherbee, C. (2019) *Global Landscape of Climate Finance 2019*. Climate Policy Initiative.
- 8 OECD (2020). *Climate finance for developing countries rose to USD 78.9 billion in 2018*.
- 9 Carty, T., Kowalzig, J. & Zagema, B. (2020). *Climate Finance Shadow Report 2020*. Oxfam International.
- 10 Khan, M., Robinson, S., Weikmans, R., Ciplet, D. & Roberts, T. (2019). *Twenty-five years of adaptation finance through a climate justice lens*. *Climate Change*. pp. 251-269.
- 11 World Commission on Environment and Development. (1987). *Our Common Future*. Oxford: Oxford University Press.
- 12 Boisson de Chazournes, L. (1999). *The Global Environment Facility Galaxy: On Linkages among Institutions*. Max Plank UNYB.
- 13 Boisson de Chazournes, L. (1999). *The Global Environment Facility Galaxy: On Linkages among Institutions*. Max Plank UNYB.
- 14 WMO & UNEP (1990). *IPCC First Assessment Report*. p. 60.
- 15 INC (1991). *Vanuatu: Draft Annex Relating to Article 23 (Insurance) for Inclusion in the Revised Single Text on Elements Relating to Mechanisms*. A/AC.237/WG.II/Misc.13.
- 16 G77/China (1991). *Joint Statement of the Group of 77 at the Fourth Session of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change*. Geneva. December 9-20.
- 17 GEF (1996). *Incremental Costs*. GEF/ C.7/Inf.5. February 29.
- 18 GEF (1996). *Incremental Costs*. GEF/ C.7/Inf.5. February 29.

- 19 GEF (2019). *Instrument for Establishment of the Establishment of the Restructured Global Environment Facility*. September.
- 20 UNFCCC (1997). *Kyoto Protocol*. 2303 UNTS 148.
- 21 UNFCCC (1998). *Report of the Conference of the Parties on its Fourth Session, held at Buenos Aires from 2 to 14 November 1998. Addendum. Part two: Action Taken by the Conference of the Parties at its Fourth Session*.
- 22 UNFCCC (1998). *Review of the financial mechanism*. Decision 3/CP.4. FCCC/CP/1998/16/Add.1
- 23 UNFCCC (1998). *Additional guidance to the operating entity of the financial mechanism*. Decision 2/CP.4. FCCC/CP/1998/16/Add.1
- 24 UNFCCC (1995). *Report of the Conference of the Parties on its First Session, Held in Berlin from 28 March to 7 April 1995*. FCCC/CP/1995/7/Add.1
- 25 UNFCCC (1999). *Capacity-building in Developing Countries (non-Annex I Parties)*. Decision 10/CP.5.
- 26 IISD (2000). Summary of the Sixth Conference of the Parties to the Framework Convention on Climate Change: 13-25 November 2000. *Earth Negotiations Bulletin*. Vol 12, No. 163.
- 27 UNFCCC (2000). *Note by the President of the Conference of the Parties at its sixth session, dated 23 November 2000*. Annex to FCCC/CP/2000/5/Add.2
- 28 IISD (2000). Summary of the Sixth Conference of the Parties to the Framework Convention on Climate Change: 13-25 November 2000. *Earth Negotiations Bulletin*. International Institute for Sustainable Development.
- 29 Pallemarts, M. & Armstrong, J. (2009). *Financial Support to Developing Countries for Climate Change Mitigation and Adaptation: Is the European Union Meeting Its Earlier Commitments?* Institute for European Environmental Policy.
- 30 UNFCCC (2009). *Fourth Review of the Financial Mechanism*. Decision 6/CP.15. FCCC/CP/2009/11/Add.1
- 31 UNFCCC (2002). *Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Special Climate Change Fund*. FCCC/SBI/2002/L.22.
- 32 UNFCCC (2001). *Decisions on which the Conference of the Parties noted that negotiations were completed and consensus reached at the second part of the sixth session and which the conference decided to forward to its seventh session for adoption*. FCCC/CP/2001/Add.1.
- 33 UNFCCC (2010). *Fourth Review of the Financial Mechanism*. FCCC/CP/2010/7/Add.2.
- 34 UNFCCC (2001). *Implementation of Article 4, paragraphs 8 and 9, of the Convention (decision 3/CP.3 and Article 2, paragraph 3, and Article 3, paragraph 14, of the Kyoto Protocol)*. FCCC/CP/2001/5/Add.1.
- 35 UNFCCC (2001). *Report of the Conference of the Parties on its Seventh Session, Held at Marrakesh from 29 October to November 2001*. FCCC/CP/2001/13/Add.1.
- 36 UNFCCC (2002). *Report of the Conference of the Parties on its Eighth Session, Held at New Delhi from 23 October to 1 November 2002*. FCCC/CP/2002/7/Add.1.

- 37 UNFCCC (2002). *Guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Least Developed Countries Fund*. Decision 8/CP.8. FCCC/CP/2002/7/Add.1.
- 38 UNFCCC (2003). *Report of the Conference of the Parties on its Ninth Session, Held at Milan from 1 to 12 December 2003*. FCCC/CP/2003/6/Add.1.
- 39 UNFCCC (2004). *Report of the Conference of the Parties on its tenth session, held at Buenos Aires from 6 to 18 December 2004*. FCCC/CP/2004/10/Add.1.
- 40 Latanzio, R.K. (2013). *International Environmental Financing: The Global Environmental Facility*. US Congressional Research Service. p.4. June 3.
- 41 GEF (2020). *Resource Allocation Framework (RAF)*.
- 42 GEF (2008). *GEF Evaluation Office, Mid-Term Review of the Resource Allocation Framework*. GEF/ME/C.34/2. pp. 14–21.
- 43 UNFCCC (2006). *Report of the Conference of the Parties on its twelfth session, held at Nairobi from 6 to 17 November 2006*. FCCC/CP/2006/5/Add.1.
- 44 UNFCCC (2007). *Bali Action Plan*. Decision 1/CP.13.
- 45 UNFCCC (2007). *Adaptation Fund*. Decision 1/CMP.3
- 46 UNFCCC (2007). *Investment and Financial Flows to Address Climate Change*. §4.
- 47 See also Tirpak, D. & Parry, J. (2009). *Financing Mitigation and Adaptation in Developing Countries: New Options and Mechanisms*. International Institute for Sustainable Development
- 48 UNFCCC (2009). *Copenhagen Accord*. Draft decision-/CP.15. §8.
- 49 UNFCCC (2009). *Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009*. FCCC/CP/2009/11/Add.1.
- 50 UNFCCC (2010). *The Cancun Agreements. Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention*. Decision 1/CP.16.
- 51 UNFCCC (2010). *Launching the Green Climate Fund*. Decision 3/CP.17.
- 52 UNFCCC (2010). *Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention*. Decision 2/CP.17.
- 53 UNFCCC (2011). *Report of the Conference of the Parties on its seventeenth session, held in Durban from 28 November to 11 December 2011*. FCCC / CP/2011/9/Add.1.
- 54 UNFCCC (2012). *Report of the Conference of the Parties on its eighteenth session, held in Doha from 26 November to 8 December 2012*. FCC/CP/2012/8/Add.1.
- 55 UNFCCC (2013). *Long-Term Climate Finance*. Decision 3/CP.19. §9,12, &13.
- 56 UNFCCC (2013). *Report of the Conference of the Parties on its nineteenth session, held in Warsaw from 11 to 23 November 2013*. FCCC/CP/2013/10/Add.1.
- 57 UNFCCC (2018). *What is the Paris Agreement?*
- 58 G77/China (2015). *G77 and China Proposed Texts to the Note by the Co-Chairs (Non-Paper)*, Dated 5 October 2015. Article 6 (Finance).
- 59 UNFCCC (2016). *Paris Agreement-Status of Ratification*.

- 60 UNFCCC (2016). *Report of the Conference of the Parties on its twenty-second session, held in Marrakech from 7 to 18 November 2016*. FCCC/CP/2016/10/Add.1.
- 61 UNFCCC (2016). *Matters relating to the implementation of the Paris Agreement*. FCCC/CP/2016/10/Add.1.
- 62 UNFCCC (2016). *Long-term Climate Finance*. FCCC/CP/2016/10/Add.1.
- 63 UNFCCC (2018). *Setting a New Collective Quantified Goal on Finance in Accordance with Decision 1/CP.21, Paragraph 53*. Decision 14/CMA.1
- 64 UNFCCC (2018). *Report of the Standing Committee on Finance*. Decision 4/CP.24. §10.
- 65 UNFCCC (2018). *Setting a New Collective Quantified Goal on Finance in Accordance with Decision 1/CP.21, Paragraph 53*. Decision 14/CMA.1.
- 66 UNFCCC (2018). *Matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21*. FCCC/PA/CMA/2018/3/Add.2.
- 67 UNFCCC (2018). *Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement*. FCCC/PA/CMA/2018/3/Add.2.
- 68 UNFCCC (2013). *Matters relating to the Adaptation Fund*. Decision 13/CMA.1. §1.
- 69 Sharma, A., Michaelowa, A., Espelage, A., Allan, J. & Müller, B. (2020). *COP25 Key Outcomes*. European Capacity Building Initiative.
- 70 UNFCCC (1996). *Adoption of the Rules of Procedure*. FCCC/CP/1996/2.
- 71 ENB (2019). Summary of the Chile/Madrid Climate Change Conference: 2-15 December 2019. 12(775). *Earth Negotiations Bulletin*. International Institute for Sustainable Development.
- 72 UNFCCC (2019). *Matters relating to the Standing Committee on Finance*. FCCC/PA/CMA/2019/6/Add.1.
- 73 UNFCCC (1992). *United Nations Framework Convention on Climate Change*. FCCC/INFORMAL/84. Article 7.
- 74 UNFCCC (1992). *United Nations Framework Convention on Climate Change*. FCCC/INFORMAL/84. Article 11.
- 75 UNFCCC (2015). *Paris Agreement*. Article 9.8.
- 76 GEF (2020). *GEF Agencies*.
- 77 GEF (2018). *GEF-7 Replenishment*.
- 78 GEF (2018). *Initial GEF-7 Country Allocations*. GEF/C.55/Inf.03.
- 79 GEF (2010). *GEF-5 Initial STAR Allocations*. GEF/C.38/Inf.8/Rev.1; GEF (2014). *GEF-6 Indicative STAR Allocations*. GEF/C.47/Inf.08; GEF (2018). *Initial GEF-7 STAR Country Allocations*. GEF/C.55/Inf.03
- 80 GEF (2020). *Report of the Global Environment Facility to the Twenty-Sixth Session of the Conference of the Parties to the United Nations Framework Convention On Climate Change*. GEF/C.59/Inf.05. 30 September.
- 81 GEF (2019). *Guidance from the Conference of the Parties and Responses by the Global Environment Facility*.

- 82 UNFCCC (2007). *Adaptation Fund, Decision 1/CMP.3, §29*
- 83 World Bank Group (2020). *Adaptation Fund Trust Fund Financial Report Prepared by the Trustee.*
- 84 Adaptation Fund (2019). *Adaptation Fund Reaches Close to USD 90 Million in New Pledges for 2019 at COP 25 Climate Conference. Press release.*
- 85 UNFCCC (2011). *Report of the Conference of the Parties on its seventeenth session, held in Durban from 28 November to 11 December 2011. FCCC/CP/2011/9/Add.1.*
- 86 GCF (2020). *Resource mobilisation.*
- 87 GCF (2020). *Green Climate Fund exceeds USD 10 billion replenishment mark.*
- 88 UNFCCC (2010). *Report of the Conference of the Parties on its sixteenth session, held in Cancun from 29 November to 10 December 2010. FCCC/CP/2010/7/Add.*
- 89 UNFCCC (2020). *Preparation for the First Report on the Determination of the Needs of the Developing Country Parties.*
- 90 Flynn, Cassie (2011). *Blending Climate Finance through National Climate Funds: A guidebook for the design and establishment of national funds to achieve climate change priorities.* United Nations Development Programme, New York, NY, USA
- 91 See, for instance, Ackerman, F. (2009). *Financing the Climate Mitigation and Adaptation Measures in Developing Countries;* & OECD (2017). *Investing in Climate, Investing in Growth.*

ANNEX

[Click here for all Decisions relating to finance from 2001 under the UNFCCC](#)

UN FRAMEWORK CONVENTION ON CLIMATE CHANGE

Preamble

The Parties to this Convention,...

Acknowledging that the global nature of climate change calls for the widest possible cooperation by all countries and their participation in an effective and appropriate international response, in accordance with their common but differentiated responsibilities and respective capabilities and their social and economic conditions, ...

Article 4 COMMITMENTS

...

3. The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1. They shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article. The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.
4. The developed country Parties and other developed Parties included in Annex II shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects.
- ...
9. The Parties shall take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology.

Article 11 FINANCIAL MECHANISM

1. A mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology, is hereby defined. It shall function under the guidance of and be accountable to the

- Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to this Convention. Its operation shall be entrusted to one or more existing international entities.
2. The financial mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance.
 3. The Conference of the Parties and the entity or entities entrusted with the operation of the financial mechanism shall agree upon arrangements to give effect to the above paragraphs, which shall include the following:
 - (a) Modalities to ensure that the funded projects to address climate change are in conformity with the policies, programme priorities and eligibility criteria established by the Conference of the Parties;
 - (b) Modalities by which a particular funding decision may be reconsidered in light of these policies, programme priorities and eligibility criteria;
 - (c) Provision by the entity or entities of regular reports to the Conference of the Parties on its funding operations, which is consistent with the requirement for accountability set out in paragraph 1 above; and
 - (d) Determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of this Convention and the conditions under which that amount shall be periodically reviewed.
 4. The Conference of the Parties shall make arrangements to implement the above-mentioned provisions at its first session, reviewing and taking into account the interim arrangements referred to in Article 21, paragraph 3, and shall decide whether these interim arrangements shall be maintained. Within four years thereafter, the Conference of the Parties shall review the financial mechanism and take appropriate measures.
 5. The developed country Parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels.

KYOTO PROTOCOL

Article 11

1. In the implementation of Article 10, Parties shall take into account the provisions of Article 4, paragraphs 4, 5, 7, 8 and 9, of the Convention.
2. In the context of the implementation of Article 4, paragraph 1, of the Convention, in accordance with the provisions of Article 4, paragraph 3, and Article 11 of the Convention, and through the entity or entities entrusted with the operation of the financial mechanism of the Convention, the developed country Parties and other developed Parties included in Annex II to the Convention shall:
 - (a) Provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in advancing the implementation of existing commitments under Article 4, paragraph

1 (a), of the Convention that are covered in Article 10, subparagraph (a); and

- (b) Also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of advancing the implementation of existing commitments under Article 4, paragraph 1, of the Convention that are covered by Article 10 and that are agreed between a developing country Party and the international entity or entities referred to in Article 11 of the Convention, in accordance with that Article.

The implementation of these existing commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among developed country Parties. The guidance to the entity or entities entrusted with the operation of the financial mechanism of the Convention in relevant decisions of the Conference of the Parties, including those agreed before the adoption of this Protocol, shall apply *mutatis mutandis* to the provisions of this paragraph.

3. The developed country Parties and other developed Parties in Annex II to the Convention may also provide, and developing country Parties avail themselves of, financial resources for the implementation of Article 10, through bilateral, regional and other multilateral channels.

Article 12

...

8. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

PARIS AGREEMENT

Article 9

1. Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention.
2. Other Parties are encouraged to provide or continue to provide such support voluntarily.
3. As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing

- country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts.
4. The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.
 5. Developed country Parties shall biennially communicate indicative quantitative and qualitative information related to paragraphs 1 and 3 of this Article, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties. Other Parties providing resources are encouraged to communicate biennially such information on a voluntary basis.
 6. The global stocktake referred to in Article 14 shall take into account the relevant information provided by developed country Parties and/or Agreement bodies on efforts related to climate finance.
 7. Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement, at its first session, as stipulated in Article 13, paragraph 13. Other Parties are encouraged to do so.
 8. The Financial Mechanism of the Convention, including its operating entities, shall serve as the financial mechanism of this Agreement.
 9. The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.

PARIS DECISION 1/CP.21

Finance

52. *Decides* that, in the implementation of the Agreement, financial resources provided to developing country Parties should enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions with respect to both mitigation and adaptation to contribute to the achievement of the purpose of the Agreement as defined in its Article 2;
53. *Also decides* that, in accordance with Article 9, paragraph 3, of the Agreement, developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation

- actions and transparency on implementation; prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries;
54. *Recognizes* the importance of adequate and predictable financial resources, including for results-based payments, as appropriate, for the implementation of policy approaches and positive incentives for reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks; as well as alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests; while reaffirming the importance of non-carbon benefits associated with such approaches; encouraging the coordination of support from, inter alia, public and private, bilateral and multilateral sources, such as the Green Climate Fund, and alternative sources in accordance with relevant decisions by the Conference of the Parties;
 55. *Decides* to initiate, at its twenty-second session, a process to identify the information to be provided by Parties, in accordance with Article 9, paragraph 5, of the Agreement with a view to providing a recommendation for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;
 56. *Also decides* to ensure that the provision of information in accordance with Article 9, paragraph 7, of the Agreement shall be undertaken in accordance with the modalities, procedures and guidelines referred to in paragraph 91 below;
 57. *Requests* the Subsidiary Body for Scientific and Technological Advice to develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Agreement for consideration by the Conference of the Parties at its twenty-fourth session (November 2018), with a view to making a recommendation for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;
 58. *Decides* that the Green Climate Fund and the Global Environment Facility, the entities entrusted with the operation of the Financial Mechanism of the Convention, as well as the Least Developed Countries Fund and the Special Climate Change Fund, administered by the Global Environment Facility, shall serve the Agreement;
 59. *Recognizes* that the Adaptation Fund may serve the Agreement, subject to relevant decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;
 60. *Invites* the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to consider the issue referred to in paragraph 59 above and make a recommendation to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;

61. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall provide guidance to the entities entrusted with the operation of the Financial Mechanism of the Convention on the policies, programme priorities and eligibility criteria related to the Agreement for transmission by the Conference of the Parties;
62. *Decides* that the guidance to the entities entrusted with the operations of the Financial Mechanism of the Convention in relevant decisions of the Conference of the Parties, including those agreed before adoption of the Agreement, shall apply mutatis mutandis to the Agreement;
63. *Also decides* that the Standing Committee on Finance shall serve the Agreement in line with its functions and responsibilities established under the Conference of the Parties;
64. *Urges* the institutions serving the Agreement to enhance the coordination and delivery of resources to support country-driven strategies through simplified and efficient application and approval procedures, and through continued readiness support to developing country Parties, including the least developed countries and small island developing States, as appropriate;

KATOWICE CLIMATE PACKAGE

Decision 12/CMA.1

Identification of the information to be provided by Parties in accordance with Article 9, paragraph 5, of the Paris Agreement

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement,

Recalling Articles 4 and 11 of the Convention,

Also recalling Article 9, paragraphs 1–5, of the Paris Agreement,

Further recalling Articles 3, 4, 7, 10, 11 and 14 of the Paris Agreement,

Recalling decisions 3/CP.19, 1/CP.21, 13/CP.22 and 12/CP.23,

Underscoring the need for continued and enhanced international support for the implementation of the Paris Agreement,

1. *Recognizes* the importance of predictability and clarity of information on financial support for the implementation of the Paris Agreement;
2. *Reiterates* that developed country Parties shall biennially communicate indicative quantitative and qualitative information related to Article 9, paragraphs 1 and 3, of the Paris Agreement, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties, and that other Parties providing resources are encouraged to communicate biennially such information on a voluntary basis;
3. *Underlines* the importance of Article 9, paragraphs 1 and 3, of the Paris Agreement on this matter;
4. *Requests* developed country Parties to submit the biennial communications referred to in paragraph 2 above and as specified in the annex starting in 2020;
5. *Encourages* other Parties providing resources to communicate biennially, as referred to in paragraph 2 above, on a voluntary basis;

6. *Requests* the secretariat to establish a dedicated online portal for posting and recording the biennial communications;
7. *Also requests* the secretariat to prepare a compilation and synthesis of the information included in the biennial communications, referred to in paragraph 2 above, starting in 2021, and to inform the global stocktake;
8. *Further requests* the secretariat to organize biennial in-session workshops beginning the year after the submission of the first biennial communications referred to in paragraph 2 above, and to prepare a summary report on each workshop;
9. *Decides* to consider the compilations and syntheses referred to in paragraph 7 above and the summary reports on the in-session workshops referred to in paragraph 8 above starting at its fourth session (November 2021);
10. *Also decides* to convene a biennial high-level ministerial dialogue on climate finance beginning in 2021, to be informed, inter alia, by the summary reports on the in-session workshops referred to in paragraph 8 above and the biennial communications referred to in paragraph 2 above;
11. *Requests* the President of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement to summarize the deliberations of the dialogue referred to in paragraph 10 above for consideration by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its succeeding session;
12. *Invites* the Conference of the Parties to consider the compilations and syntheses and the summary reports on the in-session workshops referred to in paragraphs 7 and 8 above, respectively;
13. *Decides* to consider updating the types of information contained in the annex at its sixth session (2023) on the basis of Parties' experience and lessons learned in the preparation of their biennial communications of indicative quantitative and qualitative information;
14. *Takes note* of the estimated budgetary implications of the activities to be undertaken by the secretariat pursuant to the provisions contained in paragraphs 6–8 and 10 above;
15. *Requests* that the actions of the secretariat called for in this decision be undertaken subject to the availability of financial resources.

Types of information to be provided by Parties in accordance with Article 9, paragraph 5, of the Paris Agreement

Developed country Parties shall biennially communicate indicative quantitative and qualitative information related to Article 9, paragraphs 1 and 3, of the Paris Agreement, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties. Other Parties providing resources are encouraged to communicate biennially such information on a voluntary basis. This should include:

- (a) Enhanced information to increase clarity on the projected levels of public financial resources to be provided to developing countries, as available;

- (b) Indicative quantitative and qualitative information on programmes, including projected levels, channels and instruments, as available;
- (c) Information on policies and priorities, including regions and geography, recipient countries, beneficiaries, targeted groups, sectors and gender responsiveness;
- (d) Information on purposes and types of support: mitigation, adaptation, cross-cutting activities, technology transfer and capacity-building;
- (e) Information on the factors that providers of climate finance look for in evaluating proposals, in order to help to inform developing countries;
- (f) An indication of new and additional resources to be provided, and how it determines such resources as being new and additional;
- (g) Information on national circumstances and limitations relevant to the provision of ex ante information;
- (h) Information on relevant methodologies and assumptions used to project levels of climate finance;
- (i) Information on challenges and barriers encountered in the past, lessons learned and measures taken to overcome them;
- (j) Information on how Parties are aiming to ensure a balance between adaptation and mitigation, taking into account the country-driven strategies and the needs and priorities of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation;
- (k) Information on action and plans to mobilize additional climate finance as part of the global effort to mobilize climate finance from a wide variety of sources, including on the relationship between the public interventions to be used and the private finance mobilized;
- (l) Information on how financial support effectively addresses the needs and priorities of developing country Parties and supports country-driven strategies;
- (m) Information on how support provided and mobilized is targeted at helping developing countries in their efforts to meet the long-term goals of the Paris Agreement, including by assisting them in efforts to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development;
- (n) Information on efforts to integrate climate change considerations, including resilience, into their development support;
- (o) Information on how support to be provided to developing country Parties enhances their capacities.

26th plenary meeting 15 December 2018

Decision 13/CMA.1

Matters relating to the Adaptation Fund

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement,

1. *Decides* that the Adaptation Fund shall serve the Paris Agreement under the guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement with respect to all matters relating to the Paris Agreement, effective 1 January 2019, subject to the decision on this matter made by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
2. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol decide that the Adaptation Fund will continue to be financed by the activities under Articles 6, 12 and 17 of the Kyoto Protocol;
3. *Also recommends* to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol that the Adaptation Fund shall exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available;
4. *Invites* the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to ensure that developing country Parties and developed country Parties that are Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board;
5. *Decides* that, when the Adaptation Fund serves the Paris Agreement, it shall be financed from the share of proceeds from the mechanism established by Article 6, paragraph 4, of the Paris Agreement and from a variety of voluntary public and private sources;
6. *Invites* the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to request the Adaptation Fund Board to consider the rules of procedure of the Board, the arrangements of the Adaptation Fund with respect to the Paris Agreement and the implications of the Adaptation Fund receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when the Adaptation Fund serves the Paris Agreement, with a view to forwarding recommendations to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement for consideration at its second session (December 2019).

26th plenary meeting 15 December 2018

Decision 14/CMA.1

Setting a new collective quantified goal on finance in accordance with decision 1/CP.21, paragraph 53

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement,

Recalling decision 1/CP.21, paragraph 53,

1. *Decides* to initiate at its third session (November 2020), in accordance with Article 9, paragraph 3, of the Paris Agreement, deliberations on setting a new collective quantified goal from a floor of USD 100 billion per year in the context of meaningful mitigation actions and transparency of implementation and taking into account the needs and priorities of developing countries;
2. *Agrees* to consider, in its deliberations referred to in paragraph 1 above, the aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

26th plenary meeting 15 December 2018

For other guides in this series visit
<https://ecbi.org/pocket-guides>
or scan this code



On behalf of

