



Distr.  
GENERAL

A/AC.237/86  
21 December 1994

Original: ENGLISH

INTERGOVERNMENTAL NEGOTIATING COMMITTEE  
FOR A FRAMEWORK CONVENTION ON CLIMATE CHANGE  
Eleventh session  
New York, 6-17 February 1995  
Item 8 (a) and (b) of the provisional agenda

MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM

IMPLEMENTATION OF ARTICLE 11 (FINANCIAL MECHANISM), PARAS. 1-4

CONSIDERATION OF THE MAINTENANCE OF THE INTERIM  
ARRANGEMENTS REFERRED TO IN ARTICLE 21, PARA. 3

Issues to be addressed by the Committee: a preliminary overview

Note by the interim secretariat

CONTENTS

	<u>Paragraphs</u>	<u>Pages</u>
I. INTRODUCTION . . . . .	1-11	3
A. Background . . . . .	1-4	3
B. Scope of the note . . . . .	5-6	4
C. Possible action by the Committee . . . . .	7-11	4

	<u>Paragraph</u>	<u>Page</u>
II. GUIDANCE ON PROGRAMME PRIORITIES, ELIGIBILITY CRITERIA AND POLICIES, AND ON THE DETERMINATION OF "AGREED FULL INCREMENTAL COSTS" . . . . .	12-17	5
III. MODALITIES FOR THE FUNCTIONING OF OPERATIONAL LINKAGES BETWEEN THE CONFERENCE OF THE PARTIES AND THE OPERATING ENTITY OR ENTITIES OF THE FINANCIAL MECHANISM . . . . .	18-21	7
IV. TEMPORARY ARRANGEMENTS BETWEEN THE COMMITTEE AND THE GLOBAL ENVIRONMENT FACILITY . . . . .	22-27	8
V. CONSIDERATION OF THE MAINTENANCE OF THE INTERIM ARRANGEMENTS REFERRED TO IN ARTICLE 21, PARAGRAPH 3 . . . . .	28-32	10
VI. RECOMMENDATIONS TO THE CONFERENCE OF THE PARTIES . . . . .	33	10

## I. INTRODUCTION

### A. Background

1. The Committee, in accordance with the provisions of General Assembly resolution 47/195, is in the process of formulating recommendations for the Conference of the Parties (COP) on matters relating to arrangements for the financial mechanism. The Committee initiated substantive discussion of such matters at its seventh session; it adopted some conclusions on these matters at its eighth session, and continued further deliberations on them at its ninth and tenth sessions. At its tenth session, the Committee concluded that its work on these issues was a continuing process and that it would return to them at its eleventh session in order to build on agreements reached, including those of its eighth and ninth sessions, and make recommendations thereon to the Conference of the Parties at its first session (COP 1) (A/AC.237/76, para. 80). This note is submitted to facilitate that process.

2. The interim arrangements for the financial mechanism provided for in Article 21.3 entered into force with the Convention. Article 21.3 provides that "the Global Environment Facility of the United Nations Development Programme, the United Nations Environment Programme and the International Bank for Reconstruction and Development shall be the international entity entrusted with the operation of the financial mechanism referred to in Article 11 on an interim basis. In this connection, the Global Environment Facility should be appropriately restructured and its membership made universal to enable it to fulfil the requirements of Article 11."

3. By General Assembly resolution 47/195, paragraph 6, the Committee is mandated to "contribute to the effective operation of the interim arrangements set out in Article 21 of the Convention."

4. On 16 March 1994, the Participants in the Global Environment Facility (GEF) accepted a document entitled "Instrument for the establishment of the restructured Global Environment Facility" (hereinafter referred to as "the GEF Instrument"), which was subsequently adopted by the governing bodies of the implementing agencies in accordance with their respective rules and procedural requirements. This Instrument establishes a Council that has amongst its functions that of overseeing relations with conventions served by the GEF. It also provides for the replenishment of the GEF with new financial contributions for the period from 1 July 1994 to 30 June 1997, which are expected to exceed US\$2 billion. The Instrument states that "in partial fulfillment of its purposes, the GEF shall, on an interim basis, operate the financial mechanism for the implementation of the United Nations Framework Convention on Climate Change ... in accordance with such cooperative arrangements or agreements as may be made pursuant to paragraphs 27 and 31. ... the GEF shall function under the guidance of, and be accountable to, the Conference[s] of the Parties which shall decide on policies, program priorities and eligibility criteria for the purposes of the conventions. The GEF shall also be available to meet the agreed full costs of activities under Article 12, paragraph 1, of the United Nations Framework

Convention on Climate Change" (GEF Instrument, para. 6). It further states that "until the first meeting of its Conference of the Parties, the Council shall consult the convention's interim body" (GEF Instrument, para. 27).

#### B. Scope of the note

5. The present note addresses the following issues:

(a) Guidance from the COP to the operating entity or entities, and, in this regard, eligibility criteria, programme priorities, policies and "agreed full incremental costs";

(b) Modalities for the functioning of operational linkages between the COP and the operating entity or entities, and, in this regard, the determination of the amount of funding necessary and available for the implementation of the Convention, and the process for agreeing on arrangements between the COP and the operating entity or entities;

(c) Temporary arrangements between the Committee and the GEF;

(d) Consideration of the maintenance of the interim arrangements referred to in Article 21.3; and

(e) Preparation of recommendations to COP 1 in the form of draft decisions.

6. This note should be read in conjunction with section VI of, and annex I to, the report of the Committee on its tenth session (A/AC.237/76). The following documents are also relevant: A/AC.237/Misc.41 (containing the text by the Co-chairmen of Working Group II and submissions received from Governments); A/AC.237/87 (on elements for inclusion in arrangements between the Conference of the Parties and an operating entity or entities of the financial mechanism); A/AC.237/88 (on transfer of technology); and A/AC.237/89 (report on the second meeting of the GEF Council).

#### C. Possible action by the Committee

7. With respect to guidance from the COP on the financial mechanism, the Committee may wish, at its eleventh session, to consider issues unresolved at the tenth session, subsequent communications by Governments on mitigation, capacity building, transfer of technology, incremental costs and adaptation, as well as secretariat documentation on transfer of technology.

8. With respect to modalities for the functioning of operational linkages between the COP and the operating entity or entities, the Committee may wish to focus its attention at the eleventh session on:

(a) Determining in a predictable and identifiable manner the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed; and

(b) Modalities through which the COP and the entity or entities are to agree on such arrangements and the form of the agreement.

9. Regarding temporary arrangements between the Committee and the GEF, the Committee may wish, at the eleventh session, to consider information on the second session of the GEF Council held in Washington D.C. from 1 to 3 November 1994 and to take such information into account in preparing its recommendations to the COP.

10. Concerning the review of the interim arrangements referred to in Article 21.3, the Committee may wish, at its eleventh session, to consider options consistent with Article 11.4, taking into account, *inter alia*, the report prepared by the GEF Council to assist in that review.

11. Regarding its recommendations to the COP, the Committee may wish to adopt these at the eleventh session, in the form of draft COP decisions.

## II. GUIDANCE ON PROGRAMME PRIORITIES, ELIGIBILITY CRITERIA AND POLICIES, AND ON THE DETERMINATION OF "AGREED FULL INCREMENTAL COSTS"

12. At the tenth session, the following results were achieved with respect to guidance from the COP to the operating entity or entities:

(a) Conclusions regarding adaptation activities were adopted;

(b) Note was taken of the paper presented by the Group of 77 and China on the format for the communication of information by Annex I Parties, and it was decided that the matter should be taken up at the eleventh session;

(c) The interim secretariat was requested to prepare a paper on transfer of technology;

(d) No agreement was reached on the follow-up to the conclusions on consistency of activities implemented outside the financial mechanism with COP guidance, and on the related monitoring.

13. Conclusions reached by the Committee at its eighth, ninth and tenth sessions on guidance from the COP to the operating entity or entities are given in the report on the tenth session (A/AC.237/76, paras. 81-88).

14. The Committee has now formulated an initial set of eligibility criteria for countries and activities and agreed upon a process for dealing with adaptation activities. It has decided that priority should be given to the funding of communication of information under Article 12.1 and that in the initial period emphasis should be placed on enabling activities undertaken by developing country Parties. With regard to policies, it was decided that projects funded should be country-driven and should support national development priorities that contribute to comprehensive climate change responses.

15. Agreement could not be reached on a number of proposals considered at the tenth session. The texts of these proposals are reproduced in document A/AC.237/Misc.41. In addition to the proposals, the interim secretariat has received a number of communications from Governments on mitigation, **transfer of technology**, capacity building, incremental costs and adaptation that are also contained in the afore-mentioned document. It should be noted that a number of communications provided by Governments with respect to the issue of adequacy of commitments (A/AC.237/Misc.43) are relevant to the issue of **transfer of technology**. Delegations are therefore invited to consider those communications. The Committee will also have before it a paper on **transfer of technology** (A/AC.237/88) prepared by the interim secretariat in response to the request made at the tenth session. (Document A/AC.237/85 on the roles of subsidiary bodies also contains elements relevant to the above-mentioned issues.)

16. With regard to **incremental costs**, attention is drawn to the communication by Germany on behalf of the European Community on this subject. The Committee may also wish to note that the GEF secretariat submitted a note on this subject to the GEF Council at its second session. It was decided by the Council that this note would be revised on the basis of comments to be provided by Governments. It is hoped that this note can be made available to the Committee in its revised form.

17. The Committee may wish to consider the above-mentioned issues at its eleventh session. In doing so, it may give attention to the following questions:

(a) Is there a need to provide additional guidance on programme priorities ? Or should implicit programme priorities emerging from national programmes that have been prepared in accordance with Articles 4.1(b) and 12.4 in this country-driven process, be considered sufficient ? Is there, in particular, a need to provide guidance with respect to programme priorities for mitigation activities implemented beyond enabling activities ? (See, in

this context, the Joint Summary of the Chairs of the second GEF Council meeting, decision on agenda item 9, Guidance for programming GEF resources in 1995, in document A/AC.237/89, annex II, pp. 5-6.)

(b) What initial guidance can be given with regard to **transfer of technology**, particularly with respect to facilitation measures ?

### III. MODALITIES FOR THE FUNCTIONING OF OPERATIONAL LINKAGES BETWEEN THE CONFERENCE OF THE PARTIES AND THE OPERATING ENTITY OR ENTITIES OF THE FINANCIAL MECHANISM

18. At the tenth session of the Committee, the following action was taken with respect to modalities for the functioning of operational linkages between the COP and the operating entity or entities. The interim secretariat was invited to elaborate, for consideration by the Committee at its eleventh session, substantive elements to be included in the arrangements to be drawn up under Article 11.3 of the Convention. These elements should be elaborated in consultation with the GEF secretariat (A/AC.237/76, para. 90).

19. Conclusions reached by the Committee at its eighth, ninth and tenth sessions on modalities for the functioning of operational linkages between the COP and the operating entity or entities are given in the above-mentioned document, paragraphs 89-90.

20. Having defined at the eighth session a position it intends to recommend to the COP with respect to arrangements to be agreed with the operating entity or entities regarding accountability, reconsideration of funding decisions and reporting, the Committee may wish to focus its attention at the eleventh session on the following outstanding issues:

(a) Determining in a predictable and identifiable manner the amount of funding necessary and available for the implementation of this Convention and the conditions under which that amount shall be periodically reviewed;

(b) Modalities through which the COP and the entity or entities are to agree on such arrangements and the form of the agreement. Options in this regard include agreements and memoranda of understanding.

21. The Committee will have before it a note prepared by the interim secretariat in response to the request recalled in paragraph 18 above.

#### IV. TEMPORARY ARRANGEMENTS BETWEEN THE COMMITTEE AND THE GLOBAL ENVIRONMENT FACILITY

22. At its tenth session, the Committee adopted decision 10/3\* on temporary arrangements between the Committee and the GEF which:

(a) Invited the GEF to take note of conclusions reached by the Committee with respect to guidance from the COP to the operating entity or entities and to ensure that activities by the GEF Council within the framework of the financial mechanism of the Convention, between [the tenth session] and COP 1 are in conformity with those conclusions;

(b) Also invited the GEF to take note of conclusions reached by the Committee with respect to modalities for the functioning of operational linkages between the COP and the operating entity or entities of the financial mechanism;

(c) Invited further the GEF to take note of the conclusion of the Committee with respect to activities undertaken outside the framework of the financial mechanism;

(d) Invited the GEF to provide to the Committee at its eleventh session a report containing information that could assist the COP to review the interim arrangements referred to in Article 21.3 in accordance with Article 11 of the Convention, for consideration by the COP at its first session. A report containing information on the development of operational strategy in the climate change area and on the initial activities in this field should also be provided for consideration by the COP at its first session taking into account relevant conclusions reached by the Committee;

(e) Requested the Executive Secretary to provide appropriate inputs to the Chief Executive Officer/Chairman of the GEF, with a view to ensuring that the provisions of the Convention and the conclusions reached by the Committee are fully reflected in those parts of the operational strategy of the GEF that relate to climate change.

23. It is recalled that the provisions of the GEF Instrument relating to governance and structure include the establishment of a Council which is to be the focal point for the relations of the GEF with Conferences of the Parties to conventions whose financial mechanisms are served by the GEF, and which is to ensure that activities financed by the GEF conform with guidance received from those conventions (the GEF Instrument, para. 20 (g) and (h)). The Council is also to consider and approve cooperative arrangements or agreements with such conventions and approve an annual report on GEF activities that will respond to the needs of these conventions (the GEF Instrument, paras. 26, 27 and 31).

---

\* For full text of Committee decision 10/3, see document A/AC.237/76, annex I.



24. The Executive Secretary, in response to the request referred to in paragraph 22 (e) above, has made arrangements with the GEF Chief Executive Officer (CEO)/Chairman for consultations between the two secretariats.

25. The GEF Council held its second session in Washington D.C. from 1 to 3 November 1994. The Committee may wish to note, among the results of that session, that:

(a) The rules of procedure were adopted, and that these include provision for the participation of Convention representatives;

(b) Interim provisions were adopted for the project/programme cycle;

(c) A new Scientific and Technical Advisory Panel is to be established, with the mandate to provide strategic advice and to conduct the selective review of projects;

(d) Initial guidance for programming GEF resources was agreed. In this connection, the COP is to be informed of the GEF Council's approach to programming GEF resources in the climate change area and invited to consider the categories of activities selected for implementation; and

(e) The GEF Council reviewed the text of decision 10/3 and approved the report by the GEF for submission to the Committee at its eleventh session.

26. The Council is scheduled to hold its third session during the first quarter of 1995 at which it may consider, among other items, incremental costs and financial policy issues, preliminary elements of the operational strategy for climate change and arrangements to be agreed with the COP. Information on the outcome of the second session of the GEF Council is before the Committee in document A/AC.237/89. It is intended that a briefing will be provided by the GEF CEO/Chairman through an initial statement at the opening of the eleventh session of the Committee and subsequent questions and answers.

27. These temporary arrangements were designed to cover the period up to COP 1. At the eleventh session, the Committee may wish to bring to the attention of the GEF Council any new conclusions it may have reached concerning guidance from the COP to the financial mechanism that could inform the preparations of a GEF operational strategy for climate change or any new conclusions on modalities for the functioning of operational linkages between the COP and the entity or entities. The Committee will receive a report (see paragraph 25 (e) above) by the GEF containing information that will assist in the review of the interim arrangements referred to in Article 21.3.

V. CONSIDERATION OF THE MAINTENANCE OF THE INTERIM ARRANGEMENTS REFERRED TO IN ARTICLE 21, PARAGRAPH 3

28. The Committee decided to defer consideration of the maintenance of the interim arrangements referred to in Article 21.3, to its eleventh session (A/AC.237/76, para. 93).

29. Article 11.4 provides that the COP "shall make arrangements to implement the provisions [regarding the financial mechanism] 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."

30. The Committee will have before it, at its eleventh session, a report by the GEF containing information that could assist the COP in reviewing the interim arrangements referred to in Article 21.3 in accordance with Article 11 to be considered at COP 1. The report recalls the GEF Pilot Phase, describes the major aspects of the restructuring of the GEF, its recent replenishment and modalities of the adoption of the GEF Instrument by the governing bodies of the implementing agencies. The report also provides information on collaboration between the GEF secretariat and the interim secretariat of the Convention, as well as on provisions for the representation of the Convention at GEF Council meetings. Finally, the GEF Council asserts that the GEF fulfils all the requirements stipulated in the Convention for an entity to operate its financial mechanism.

31. Taking such information into account, the Committee may wish to recommend a decision regarding the maintenance of the interim arrangements to the COP . Such a recommendation would be made in the context of the recent acceptance of the GEF Instrument by Participants and its subsequent adoption by the governing bodies of the World Bank, the United Nations Development Programme and the United Nations Environment Programme; the broad participation in the GEF (most of these countries are also Parties to the Convention); the replenishment of the GEF and the consequent availability of funds for the implementation of the Convention and initial programming of resources for that purpose. In such a context, practical options for recommendation to the COP would include:

- (a) Entrusting the GEF with the operation of the financial mechanism; or
- (b) Continuing to entrust the GEF with the operation of the financial mechanism on an interim basis.

32. It should be noted that since the review within four years provided for in Article 11.4 of the Convention (see paragraph 29 above ) narrows the difference between these two options, the actual date of such a review might be decided with reference to the date of the next

replenishment of the Facility. The conclusion reached by the Committee at its ninth session, that further study and consideration would be needed before any firm decision is made regarding the designation of additional operating entities, might also be recalled in this context.

## VI. RECOMMENDATIONS TO THE CONFERENCE OF THE PARTIES

33. The Committee may wish, at its eleventh session, to adopt recommendations to COP 1 on the above issues in the form of draft COP decisions.

-----