



# A PARIS REPLENISHMENT CYCLE

## FOR CONTRIBUTIONS TO THE UNFCCC FINANCIAL MECHANISM

### Concept Note<sup>1</sup>

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## Introduction and Summary

It is widely acknowledged that a deal in the upcoming UN Climate Conference in Paris will only be possible if it contains a meaningful finance package for developing countries with regards to delivery of pre-2020 pledges and post-2020 arrangements. What is less clear is what such a package would have to contain to satisfy developing country demands, particularly with regards to the predictability of funding. In the past, at critical junctures of the regime, it has been sufficient to create new funds.<sup>3</sup> However, for Paris the first option – establishing yet another multilateral climate fund – is clearly no longer viable, and the idea of adopting another overall goal (say, \$200 billion by 2030) has also lost a lot of its lustre for a variety of reasons, chief amongst them being the lack of clarity of what exactly is to be counted and the durability of such one-off goals.<sup>4</sup>

This Concept Note argues that a very pragmatic way forward, with surprisingly principled outcomes, would be to establish a *dynamic replenishment cycle for the Financial Mechanism* of the Convention (including the GCF replenishments which are meant to start in 2017), as part of the post-2020 arrangements. This would introduce a clear distinction between ‘replenishment finance’ and all the other climate finance flows (bilateral, private sector, etc.) which obviously would remain climate finance sources. For replenishment finance, Instruments of Commitment will be deposited in the context of these periodic replenishments and be the finance NDCs (Nationally Determined Contributions) for the purposes of the Paris Agreement – without involving any reference to non-replenishment flows.<sup>5</sup>

In short, the idea is to adapt the contractually binding replenishment process of the GCF (that will happen regardless of Paris) and adopt the resulting contributions as part the core agreement, and a key part of the Paris finance package.

## Nationally Determined Finance Contributions?

### *The Issue*

Many countries likely to receive international climate finance under the new Agreement (‘recipients’) support the idea that *Nationally Determined Contributions* (NDCs) should also *include a finance component* in which the countries expected to provide finance (‘contributors’) list the levels of finance they will be contributing during the relevant multi-year contribution term (see Box 1). However, many contributors strongly reject such financial NDCs,<sup>6</sup> and instead propose that any finance provided should simply be *reported under the existing reporting channels*.

This controversy was taken up in the finance section of the 2015 Oxford Fellowship and Seminar (7-11 September 2015), in the course of which the long-standing and general demands of recipients were summarized as there being a need for a twin-track process, consisting of:

- [A] a procedure for periodically determining needs-based aggregate target envelopes (‘collective goals’) of climate finance to be provided by contributors to recipients through the Financial Mechanism, and a longer-term indication of the evolution of these envelopes; and
- [B] a procedure for contributors to periodically make individual, short-term, nationally determined, binding public sector climate finance contributions that:
  - (i) taken together comply with the applicable short-term collective goal; and
  - (ii) when disbursed, respect a thematic and geographical balance.

**Box 1. Finance NDCs in the Geneva Finance Text**

104. All Parties with a commitment under Article 4, paragraph 3 of the Convention shall prepare, maintain, communicate and implement a financial component in their nationally determined contributions, including, as appropriate, quantified financial pledges, targets and actions to mobilize climate finance for developing countries and to assist the implementation of the NDCs of developing countries, primarily through the Financial Mechanism of the Convention.

105. In accordance with the principles of the Convention, developed country Parties will submit their intended nationally determined contributions of financial resources in their INDCs.

A number of reasons are cited by contributors for rejecting such a process. For one, there is a reluctance to entertain a top-down methodology involving the determination of collective finance goals, particularly if that determination is meant to be needs-based. Another reason is that countries normally have relatively short-term (usually annual) budget cycles, and are generally not able to ‘lock-in’ budget items across budget cycles. In other words, it is difficult for countries to make ‘binding’ budgetary promises beyond limited (one-year) budget horizons.

The Oxford discussion revealed, in particular, that the developing country participants did not interpret the ‘financial needs’ of their countries purely as a ‘bill’ for developed countries, as they also invest in their own mitigation and adaptation efforts. It was also pointed out that existing replenishment practices for multilateral funds provide sufficient domestic consensus/expectation for budgetary appropriation by Treasuries and a lower administrative burden in cases where there are agreed international replenishment cycles.

Furthermore, as noted at Oxford, even if a purely bottom-up non-binding procedure were to be used it would, in practice, be extremely difficult to ensure thematic and/or geographical balance. The best one could achieve would be to ask the contributors to list in detail the themes and regions they intend to fund, and then conclude that there is no balance. To think that it would be possible to instruct Parties to re-allocate their contributions so as to remedy the imbalance is, at best, fanciful. The best the international community can do to address such imbalances in aggregated bilateral flows is to use multilateral funding. Indeed, it stands to reason that this sort of twin-track process can only succeed in the context of multilateral funding.

***Existing Replenishment Practices***

In light of this, it may therefore be surprising that (in the context of multilateral funds at least) there actually is a well-established process for raising funds that incorporates most, if not all of the elements of [A] and [B]. The process in question is, of course, what is known as ‘*replenishment*’.

Take the cases of the Trust Fund of the **Global Environment Facility** (GEF), one of the two operating entities of the Financial Mechanism (FM) which recently completed the sixth round of its four-year replenishment cycle, and that of the Montreal Protocol **Multilateral Fund** (MF), which has already been replenished nine times. Both replenishments (for more detail see the Appendix, below) involve not only a *needs-based determination of a funding envelope* for the period in question, but also *legally binding contributions*.

***Determining the Envelope***

In the case of the MF, the decision of what the funding envelope should be is taken by the Meeting of the Parties (MOP) of the Montreal Protocol, based on a report prepared by the Technology and Economic Assessment Panel of the MF. Interesting, in light of [A], is that the Panel is also requested

to provide *indicative figures*, for the two subsequent replenishment periods. The MF replenishment process is therefore genuinely dynamic in the sense of a *dynamic contribution cycle*.<sup>7</sup>

As regards the replenishment of the GEF Trust Fund, the situation is somewhat more complicated. While, in principle, the funding envelopes are meant to be jointly determined by the COP and the GEF Council (based on a needs assessment by the COP), in practice, the GEF Secretariat and the World Bank (as GEF Trustee) invite potential contributors (subject to a minimum contribution requirement) who then decide on who else (recipients, NGOs) is admitted and in what function. The replenishment envelope is determined by the participants of these meetings, based on a [programming document](#) (with an Annex detailing proposed indicative resource envelopes for the different focal areas etc.), prepared by the GEF Secretariat.

### *Determining the Contributions*

In the MF, the determination of individual contributions from developed (non-Article 5) countries is rule-based, using the UN scale of assessment. Individual contributions to the GEF Trust Fund replenishments are negotiated by the participants of the replenishment meetings.

In the case of the GEF, individual pledges are inscribed in a Draft World Bank Resolution to be considered by the GEF Council and approved by the World Bank Executive Directors. Contributors are expected to deposit (*Qualified Instruments of Commitments*)<sup>8</sup> with the World Bank. It is the fact that such (unqualified) IOCs are binding contractual obligations under international law which *allow countries to lock in spending across budget cycles*.<sup>9</sup>

## **Replenishing the Financial Mechanism**

The points raised in the preceding section naturally, and almost inevitably, suggest the idea of using such replenishments in the context of the Financial Mechanism, as a way of meeting the desiderata listed in [A] and [B]. Given it has already been decided that the Green Climate Fund (envisaged as being by far the most significant funding instrument under the FM) will have a replenishment cycle, the only issues to be resolved are:

- (i) what other FM funds (if any) would be included in such a joint replenishment of the FM, and
- (ii) is it still possible to introduce this idea into the finance package of the Paris Agreement.

As concerns the first point, we believe it would be desirable, in addition to the GCF, also to include the Adaptation Fund, and the GEF-operated Least Developed Country Fund (LDCF)/Special Climate Change Fund (SCCF).<sup>10</sup> With regard to the second point, there are nine references to ‘replenishments’ in the official Geneva Negotiating text, three of which are of particular interest in this context:

- §90 (v) referring to a ‘replenishment of the Financial Mechanism and its operating entities’;
- §128.1 referring to a replenishment of the Operating Entities of the FM and other funds, including the AF;
- §94 (d) linking the replenishment envelope of the GCF to the overall financial goal.

This, we believe, should be sufficient to introduce a (dynamic) replenishment cycle for the FM, covering the GCF, the AF, the LDCF, and the SCCF, with the replenishment envelopes as overall goals for (replenishment) finance.

### ***The IDDRF Proposal***

A recent Working Paper by Spencer *et al.*<sup>11</sup> unambiguously concurs with the idea that there should be, to quote one of their section headings ‘a mechanism to establish cycles of contributions to provide climate finance’. It proposes that ‘in addition to the collective objective, the new agreement could

contain a specific procedural commitment incumbent on developed parties and those parties in a position to do so to provide specific support to developing parties that require it. The cycle of contributions could consist of the following elements:

- A commitment anchored in the core agreement to provide climate finance in line with the cycle of the overall agreement, for example, every five years.
- Operationally, the commitment to provide climate finance could be reflected in quantitative terms in a COP decision, updated each cycle.
- A strengthened MRV framework.<sup>12</sup>

In short, the IDDRI (Institut du Développement Durable et des Relations Internationales) proposal is to have *a cyclical determination of a (five-year) aggregate figure of overall climate finance flows* to developing countries akin to the \$100bn figure, which is why it requires a strengthened MRV framework. As such it is fundamentally different from (albeit potentially complementary with) our proposal of a dynamic replenishment cycle.

### ***The Dynamic Replenishment Cycle Proposal***

Under this proposal, *nationally determined finance contributions*, both individual and in aggregate, would solely pertain to *contributions to a replenishment of the Financial Mechanism*. This does not mean that other flows (MDBs, bilateral, private sector, etc.) would become irrelevant. They could, and indeed should, still be reported but through existing channels, i.e. *not* as part of NDCs. The key advantages of the dynamic replenishment proposal are:

1. Most of it will happen regardless of Paris - given the decision that there will be a replenishment for the GCF and the expectation that most of the FM funding will go through the GCF.
2. MRV of such nationally determined replenishment contributions becomes a non-issue.
3. Given best existing practice (see Appendix), it stands to reason that there will be a top-down, needs-based determination of the aggregate figure (the replenishment envelope), and the individual NDCs will be legally (contractually) binding.

In practical terms, we believe it would be worthwhile for the Paris Agreement to contain an article establishing a dynamic replenishment cycle for the Financial Mechanism of the Agreement/Convention with nationally determined financial contributions. This would be sufficient to identify finance NDCs as pertaining to these replenishments and to indicate the desirability of some dynamic trend indication with regard to the replenishment envelopes.<sup>13</sup> The remaining details – which Funds should be involved, how exactly such a joint replenishment should be managed, etc. – are probably best dealt with after Paris, maybe under the aegis of the Standing Committee of Finance, which could be requested to do so in the Paris Decision.

## Appendix: Replenishments

### *The Global Environment Facility*

The Global Environment Facility (GEF) was set up in 1991 as a joint pilot project by the World Bank, UNDP, and UNEP. In 1992, as part of the Interim Arrangements of the Convention (Art. 21), the GEF was chosen to operate the Financial Mechanism of the Convention on an interim basis. In 1998, at [COP 4](#), the restructured GEF was designated as ‘an entity entrusted with the operation of the Financial Mechanism’.

Resources for the GEF Trust Fund are replenished every four years when countries that wish to contribute to the GEF Trust Fund (referred to as ‘replenishment participants’) pledge resources through a process called ‘GEF Replenishment’.

### *Determining the Envelope*

#### *In Principle*

The Convention requires the COP to *agree upon arrangements for determining ‘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.’*<sup>14</sup> Further to this, developing countries ‘sought, in particular, that the COP (rather than the GEF or donors) should assess the amount needed by developing countries to implement their Convention commitments.’<sup>15</sup> This move was resisted by some GEF contributors,<sup>16</sup> and a compromise was reached in the MOU between the COP and the GEF according to which *the COP and the [GEF] Council shall jointly determine the aggregate GEF funding requirements for the purpose of the Convention.*

The procedures for such a joint determination are further defined in an [Annex to the MOU](#) according to which the COP was to ‘*make an assessment of the amount of funds that are necessary to assist developing countries, in accordance with the guidance provided by the COP, in fulfilling their commitments under the Convention over the next GEF replenishment cycle, taking into account:*

- (a) *The amount of funds necessary to meet the agreed full costs ... to prepare their national communications ... ;*
- (b) *Financial resources needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by Article 4.1 of the Convention [‘Commitments applicable to all’] and that are agreed between a developing country Party and the international entity or entities referred to in Article 11 of the Convention;*
- (c) *Information communicated to the COP from the GEF on the number of eligible programmes and projects that were submitted to the GEF, the number that were approved for funding, and the number that were turned down owing to lack of resources;*
- (d) *Other sources of funding available for the implementation of the Convention.’*

#### *In Practice*

In practice – see the [Draft Summary of Negotiations: Sixth Replenishment of the GEF Trust Fund](#) – the Trustee and the GEF Secretariat initiate the replenishment process by circulating a discussion note to prospective participants regarding participation, proposed timetable, and core replenishment topics.

Following an open invitation, participants in the first meeting agree on the preliminary schedule of subsequent replenishment meetings and on the overall work plan for such discussions, as well as on the **arrangements for participation** in the replenishment discussions. It was decided that the meetings would

benefit from the *participation of non-donor recipient country representatives* – one representative for each of the four regional groupings (Africa, Asia, Eastern Europe, and Latin America and the Caribbean) – as full members of the process. Participants also agreed that *two NGO representatives* would participate in an observer capacity.

It was agreed that the replenishment discussions should include the following subjects *regarding the Sixth Replenishment Phase*:

- (i) strategic positioning;
- (ii) programming of resources;
- (iii) policy recommendations; and
- (iv) financial arrangements.

In reviewing the programming of resources, participants agreed to the *indicative distribution of resources among the GEF focal areas*, corporate programmes, and other activities.

To support the adopted programming approach, participants adopted a 5(s)2.8s8(opt).5(d)-1od [(f)1.2( )]TJ /TT1 1

- All control measures and relevant decisions agreed upon by the parties to the Montreal Protocol and the Executive Committee, in particular those related to the special needs of low volume and very-low-volume-consuming countries, and decisions agreed upon by the Twenty Second Meeting of the Parties and the Executive Committee ... insofar as those decisions will necessitate expenditure by the Multilateral Fund during the period 2012–2014;
  - The need to allocate resources to enable all parties operating under paragraph 1 of Article 5 of the Montreal Protocol to maintain compliance [with the relevant articles] of the Protocol;
  - Rules and guidelines agreed upon by the Executive Committee ... for determining eligibility for the funding of investment projects, non investment projects, including institutional strengthening, measures to combat illegal trade and sectoral or national phase-out plans, ... ;
  - The impact that the international market, ozone-depleting substance control measures and country phase-out activities are likely to have on the supply of and demand for ozone-depleting substances, the corresponding effects on the price of ozone-depleting substances and the resulting incremental costs of investment projects during the period under review;
3. That, in preparing the report referred to above, the Panel should consult widely all relevant persons and institutions and other relevant sources of information deemed useful;
  4. That the Panel shall strive to complete the report referred to above in time to enable it to be distributed to all parties two months before the thirty-first meeting of the Open Ended Working Group;
  5. That the Panel should provide *indicative figures* for the periods 2015–2017 and 2018 – 2020 to support a stable and sufficient level of funding, on the understanding that those figures will be updated in subsequent replenishment studies;

## Notes

<sup>1</sup> *This Note was written in the authors' purely personal capacity. The views expressed do not necessarily reflect the views of the bodies they are affiliated with.*

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<sup>3</sup> The Adaptation Fund (AF), the Least Developed Country Fund (LDCF), and the Special Climate Change Fund (SCCF) all created in 2001; Marrakech, and the Green Climate Fund in 2010 (Cancun).

<sup>4</sup> See, for example: [Just cynical manipulation? Making climate finance pledges meaningful](#), Romain Weikmans and Timmons Roberts, Brookings Brief.

<sup>5</sup> Non-replenishment finance could still be announced and/or reported through traditional channels (i.e. not as part of NDCs).

<sup>6</sup> Indeed, historically, 'most donors resist being legally bound by specific sums and timetables, particularly where costs are large, uncertain and extended beyond electoral cycles – as is the case for climate change.' [Farhana Yamin and Joanna Depledge *The International Climate Change Regime: A Guide to Rules, Institutions and Procedures*, Cambridge University Press, 2004, p.267]

<sup>7</sup> Benito Müller, Xolisa J. Ngwadla, and Jose D. G. Miguez, with Isabel Cavalier Adarve, Carlos Fuller, Tosi Mpanu-Mpanu and Nagmeldin G. Elhassan (2015), [A Dynamic Contribution Cycle: Sequencing Contributions in the 2015 Paris Agreement](#), OCP/ecbi Concept Note, October 2015

<sup>8</sup> *Instrument of Commitment: An instrument provided by a Donor unconditionally committing to provide funds to the IBRD, as Trustee for the Global Environment Facility, under a Replenishment Resolution.* [[Financial Intermediary Funds: Glossary](#)]

<sup>9</sup> See, for example, Rutsel S. J. Martha (2015) *The Financial Obligation in International Law*, OUP: p.264.

<sup>10</sup> The climate change focal area of the GEF Trust Fund is, of course, also under the UNFCCC FM, but it is not easy to see how it could, on its own, be taken out of the GEF replenishments and be included in these FM replenishments.

<sup>11</sup> Thomas Spencer, Sani Zou, Teresa Ribera, and Michel Colombier (2015), [Mapping issues and options on climate finance in 2015](#), IDDRI, 15 July 2015.

<sup>12</sup> Spencer et al. (2015, p.16).

<sup>13</sup> Following the example of the Montreal Fund (see Appendix).

<sup>14</sup> Art 11.3.d.

<sup>15</sup> (Yamin and Depledge, 2004, p.267).

<sup>16</sup> (Yamin and Depledge, 2004, *ibid.*).