

# Procedural Arrangements for the Paris Replenishment Cycle

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## Discussion Note<sup>1</sup>

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by Benito Müller,<sup>2</sup> and Xolisa J. Ngwadla

The recent OCP/ecbi Concept Note [A Paris Replenishment Cycle for Contributions to the UNFCCC Financial Mechanism](#) introduces the idea of a joint replenishment of all the funds that are to serve the Financial Mechanism of the new Paris Agreement. This follow-on Discussion Note is meant to provide some input into the discussion of how such a joint replenishment might work.

It starts by re-iterating the short description of the two existing replenishment processes referred to in the original Concept Note, namely that of the Trust Fund of the **Global Environment Facility** (GEF), one of the two operating entities of the

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

***Stage I: Principal Reviews and Guidance***

Each of the funds serving the FM undergoes an independent performance review (akin to the [Overall Performance Studies](#) of the GEF), which is to feed into the periodic Review of the FM under the aegis of the Standing Committee on Finance (SCF)

The outcome of this Review will be the basis for Principal Guidance to these funds for the next replenishment period, drafted by the SCF.

***Stage II: Establishing the Paris Replenishment Envelopes***

Given that both the benchmark replenishments use programming scenarios as a basis for determining the replenishment envelopes, it stands to reason that joint replenishment envelopes should be based on programming scenarios for the different funds involved.

One advantage of jointly replenishing all the funds of the FM would be the possibility of introducing a screening and coordinating phase for the scenarios put forward by the individual funds, with regards to their coherence and complementarity. We believe that, given its remit (see Box 1), this could and should be done under the aegis of the Standing Committee on Finance (SCF). Such a ‘preventative *ex ante* approach’ to incoherencies and non-complementarities would, we believe, be more effective than the current remedial *ex post* exercises carried out through the provision of COP guidance drafted by the SCF.

As it happens, our two benchmark replenishment processes differ considerably in how the replenishment envelopes are agreed on (see Appendix for more details). In the case of the MF, the Montreal Protocol MOP takes the decision. For the GEF the envelope is, in principle, to be jointly determined by the COP and the GEF Council. In practice, the envelope is decided by the participants of a series of replenishment meetings convened by the GEF Secretariat and Trustee.

We do not believe it would be politically possible, or for that matter practicable, to choose either benchmark procedure as currently practised. For one, given that political sensitivities have not drastically changed since the GEF was designated an Operating Entity of the FM, the MF option of having the COP decide the envelope is unlikely to fly. At the same time, it would not be good governance practice for the Trustee/Secretariat of one of the funds in question to initiate such a process, as this would clearly involve a conflict of interests. What would be needed is an independent convenor, and we believe that this could again be done by the SCF, as part of its remit ‘to assist the Conference of the Parties in exercising its functions with respect to the financial mechanism of the Convention in terms of mobilization of financial resources’ (see Box 1).

***Stage III: Pledging Rounds***

Again, there is a considerable difference between the two benchmark replenishment processes with respect to the manner of determining individual contributions. While a rule-based sharing of the burden – following the MF replenishment model – would arguably be more efficient (once the rule is agreed), it is unlikely to be politically acceptable. This is why the contributions to the Paris Replenishments would probably be determined under a hybrid bottom-up and programming needs-based model, similar to the GEF model, in the context of the above-mentioned replenishment meetings convened by the SCF, with the aim of soliciting pledges and ‘instruments of commitment’ sufficient to reach the target envelope established in Phase II.

## Way Forward

Needless to say, these ideas on how a Paris Replenishment Cycle could work in practice are still sketchy and would need to be elaborated during the envisaged Paris work programme. But we believe that these purely technical issues should be easily resolved, given the existing considerable experience with replenishment processes, and we hope that this initial procedural sketch will suffice for Parties to consider the establishment of such a Paris Replenishment Cycle as the key finance outcome in the Paris Agreement.

## 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>7</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>8</sup> This move was resisted by some GEF contributors,<sup>9</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.’*

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<sup>7</sup> Art 11.3.d.

<sup>8</sup> (Yamin and Depledge, 2004, p.267).

<sup>9</sup> (Yamin and Depledge, 2004, *ibid.*).

*In Practice*

In practice – see the [Draft Summary of Negotiations: Sixth Replenishment of the GEF Trust Fund](#) – the Trustee and the GEF Se

- 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.