## Sixteenth meeting of the Standing Committee on Finance
## Bonn, Germany, 18 – 21 September 2017

### Background paper on the sixth review of the Financial Mechanism

**Expected actions by the Standing Committee on Finance**

The Standing Committee on Finance will be invited to consider the following, with a view to finalize its expert inputs on the sixth review of the Financial Mechanism:

a) Draft technical paper on the sixth review of the Financial Mechanism;

b) Draft summary of the technical paper and recommendations to the COP that could be included in its annual report to the COP.

## I. Options for consideration by the Standing Committee on Finance

1. The SCF may wish to consider the draft technical paper on the sixth review of the Financial Mechanism, as contained in SCF/TP/2017/1.[1] The SCF may wish to finalize the technical paper inter-sessionally on a non-objection basis and make it available on the dedicated webpage,[2] following the practice from the fifth review of the Financial Mechanism.

2. The SCF may also wish to consider a draft summary of the technical paper and recommendations to the COP (contained in the Annex) that could be included in its annual report to the COP, thereby constituting expert inputs by the SCF on the sixth review of the Financial Mechanism.

## II. Background

3. The COP decided to review the Financial Mechanism of the Convention every four years in accordance with Article 11.4 of the Convention[3] and the COP requested the SCF to provide its expert input into the preparation and conduct of the period review of the Financial Mechanism.[4] The SCF provided its expert inputs on the fifth review of Financial Mechanism in the form of an executive summary of the technical paper that it produced on the fifth review, containing conclusions and recommendations by the SCF.[5] The COP welcomed the inputs from the SCF,[6] which served as a basis in the deliberations by Parties and the COP decision on the outcomes of the review of the Financial Mechanism.

4. At its twenty-second session, the COP adopted the updated guidelines for the sixth review and requested the SCF to provide expert input to the sixth review, with a view to finalizing the review at COP 23 (November 2017).[7] The SCF was encouraged by the COP to build on the methodology and criteria used for the fifth review of the Financial Mechanism.[8]

5. Furthermore, the COP invited observers and other interested international organizations, stakeholders and non-governmental organizations involved in the activities of the operating entities of the Financial Mechanism to submit, by April 30th 2017, their views on the sixth review based on the above mentioned guidelines, for

[1] Available at <www.unfccc.int/6881>.
[2] A dedicated webpage on the review of the Financial Mechanism: <www.unfccc.int/3658>.
[3] Decision 3/CP.4.
[4] Decision 2/CP.17 paragraph 121(e)
[5] See annex III of FCCC/CP/2014/5 and decision 9/CP.20 and its annex.
[6] Paragraphs 1 and 3 of decision 9/CP.20.
[7] Decision 12/CP.22, paragraph 1–2.
[8] Decision 9/CP.20, paragraph 2.

consideration by the SCF in preparing its expert input to the review.[9] As at 1 September 2017, three submissions were received from: the European Union; the Transparency International and; the Partnership on Sustainable, Low Carbon Transport.[10] As part of the outreach strategy, the SCF encouraged the Adaptation Committee (AC) and the Technology Executive Committee (TEC) to provide their inputs to the sixth review[11] and the inputs received from AC and TEC can be found on the dedicated webpage.[12]

6. At its fifteenth meeting, the SCF agreed on a concept note for preparing its expert input[13] and requested the secretariat to prepare a technical paper on the sixth review of the Financial Mechanism. During the inter-sessional period, the draft technical paper was prepared by the secretariat under the guidance of the co-facilitators and it was circulated to the SCF for review and comments prior to this meeting. The draft technical paper can be found in document SCF/TP/2017/1.[14]

7. A draft summary of the technical paper and recommendations to the COP (contained in the Annex) was prepared under the guidance of the co-facilitators, which could be included as an annex to the annual report of the SCF to the COP, thereby constituting expert inputs by the SCF on the sixth review of the Financial Mechanism.

[9] Decision 12/CP.22, paragraph 3.
[10] All submissions can be accessed via: <www.unfccc.int/3658>.
[11] The SCF, at its 15th meeting, agreed to invite other constituted bodies to provide their views and inputs. See SCF/2017/15/11, paragraph 17(c).
[12] <www.unfccc.int/3658>.
[13] Appendix I to Annex I, SCF/2017/15/11.
[14] It can be accessed at <www.unfccc.int/6881>.

**Annex**

# Draft summary of the technical paper on the sixth review of the Financial Mechanism with recommendations to the COP

## I. Background

1. At its fifteenth meeting, the Standing Committee on Finance (SCF) requested the secretariat to prepare a technical paper that will inform the Committee in deliberating on the effectiveness of the Financial Mechanism of the Convention and preparing its expert inputs to be submitted to the Conference of the Parties (COP). The paper builds on the criteria for the review agreed by Parties at COP 22.[15] These criteria have been grouped in the following clusters of issues and corresponding chapters: (a) governance; (b) responsiveness to COP guidance; (c) mobilization of financial resources; (d) delivery of financial resources; (e) results and impacts achieved with the resources provided; (f) consistency of the activities of the Financial Mechanism with the objective of the Convention; and (g) consistency and complementarity of the Financial Mechanism with the other sources of investment and financial flows.

2. The paper is informed by desk research and literature review of the sources of information identified in the updated guidelines,[16] complemented with past decisions related to the Financial Mechanism and inputs from the secretariats of the operating entities of the Financial Mechanism.

3. The SCF may wish to consider including the following summary and recommendations in its annual report to the COP as its inputs to the sixth review of the Financial Mechanism.

## II. Summary of the technical paper

### A. Governance

#### A.1. Transparency of the decision-making process of the operating entities

4. This section of the technical paper covers the following issues relating to transparency of the decision-making process activities of the operating entities: inter-sessional decision-making by the governing bodies; openness towards observer engagement in decision-making; decision-making in the absence of consensus; proceedings, webcast, reporting services and executive sessions; timely circulation and publication of official documents; official languages used for documents; accessibility to publicly unavailable information; ethics and conflicts of interest and; means for stakeholders to make complains and criticisms and resolve conflicts.

5. Decision-making processes in both operating entities follow international best practices regarding transparency and both operating entities are in the process of strengthening their respective policies and procedures. There are remaining areas of further improvements, for example in the case of the GCF to develop ways to make decisions in the absence of consensus. As of the 17th Board meeting, decision on this issue was still pending. As for the GEF, according to OPS6, access to project related information and documents should be improved further. According to the GEF secretariat, with a view to further enhance the availability, accuracy, quality and timelines of data on GEF financing, operations and results, an upgraded information management system will be launched by the beginning of the GEF-7 in July 2018.

[15] As contained in the annex to decision 12/CP.22.

[16] As footnote I above.

**A.2. Engagement of stakeholders in meetings and operations**

6. This section analyses the operating entities' engagement with stakeholders in its meetings and operations, including with: CSOs including indigenous peoples; recipient countries and; private sector.

7. With regards to engagement with CSOs, there are mechanisms in place in the operating entities to ensure adequate and meaningful stakeholder engagement at meetings and in operations. However, according to the Transparency International, there is no harmonized criteria for qualifying such engagement and, beyond the redress mechanisms, there is not a process to verify information on how stakeholder consultation and participation is ensured at all levels of activities of the GCF and the GEF. There is no financial support for CSOs to participate at GCF meetings and even though there is funding for GEF CSOs to participate in the work of the GEF, lack of access thereto was raised as a limiting factor. The level of engagement with indigenous peoples at the GEF is currently under examination, while the GCF is in the process of developing a policy.

8. Recipient countries have actively engaged in policy and programming of both entities, and such participation has been facilitated by the delivery of capacity building programs and enabling activities implemented by both entities including National Portfolio Formulation Exercises, Expanded Constituency Workshops, Preparedness funding, Structured dialogues and country programs.

9. As to private sector engagement, the GCF, as per its Governing Instrument, has an action plan for maximizing engagement with the private sector in its strategic plan, including through the Private Sector Facility (PSF) and the Private Sector Advisory Group (PSAG). The PSF was being developed in 2017, prioritizing in creating a strategic roadmap and in operationalizing private sector programs and projects. Furthermore, out of 54 entities accredited so far to the GCF, 8 are private sector entities and out of 43 projects approved so far amounting to USD 2.2 billion, only 11 projects amounting to USD 500 million relates directly with private sector. Many other entities accredited to the GCF, including national, regional and multilateral development banks, have brought forward private sector funding proposals to the GCF and it is possible for accredited entities to partner with private sector or other entities to bring forward private sector proposal.

10. The GEF continues to actively engage with the private sector including through an updated policy on the use of non-grant instruments and OPS6 found that there is high level of performance of existing projects involving private sector. However, OPS6 also found there is still much room for the GEF to improve, including by: making the GEF funding mechanism more accessible to the private sector; widening its engagement with private sector entities that vary in in their industry, focus, size and approach to environmental issues, using a mix of intervention models; strengthening its outreach on its work.

**A.3. Gender-sensitive approaches**

11. This section analyses gender integration policies and action plans of the operating entities and their application in the projects and programs. Both operating entities have developed comprehensive gender policies, and efforts are being made to enhance gender mainstreaming across the portfolio of projects and programs.

12. The GCF has adopted a gender policy and action plan with the objective of fully mainstreaming gender considerations in all operations of the Fund, and also seeking to ensure gender parity within the GCF institution itself. At the GEF, significant progress has been made in the integration of gender issues, particularly in LDCF and SCCF programming during GEF-6, with over 85% of projects including a gender-sensitive results framework. However, OPS6 found that the policy could be improved in terms of clarity, and that the inclusion of gender-specific indicators in project documents was highly variable across the portfolio, pointing to the need for additional guidance. The GEF Council is expected to consider an updated policy on gender mainstreaming, together with operational guidelines at its Council meeting to be held in November 2017, taking into account the results of OPS6 and lessons learnt in implementation.

### A.4. Environmental and social safeguards

13. This section analyses environmental and social safeguard policies and their application in the projects and programs. The operating entities are putting their efforts to improve, refine, implement and harmonize environmental and social safeguards.

14. The GCF is using, on a temporary basis, the IFC Performance Standards, with which accredited entities are required to demonstrate their compliance on a fit-for-purpose basis, meaning that accredited entities must demonstrate why a certain standard might not be applicable to their particular proposal or program. It should be noted that when the IFC standards were evaluated some gaps in implementation were highlighted, notably in the case where project execution involves multiple financial intermediaries who are not themselves accredited or whose capacity to implement the standards is not well established.

15. As for the GEF, a 2016 evaluation found that the GEF minimum standards have been effective in catalysing efforts among the GEF agencies, but that some gaps in coverage remains on a broad set of emerging topics, including human rights, climate change and disaster risks and the application of free, prior, informed consent. As the GEF and GCF embark on the creation of broader partnerships and programmatic approaches, including with private sector, issues such as these should be addressed in a coherent manner.

### A.5. Fiduciary standards

16. Having different fiduciary standards in each operating entities and other funds impose challenges and inefficiencies for institutions that access financial resources from more than one fund. However, there are many similarities between the fiduciary standards applied by the two operating entities and there is evidence for an increasing trend towards standardization of basic fiduciary standards to which countries and implementing entities must respond. It should be noted that the GCF fiduciary standards were due to come into consideration in 2017.

## B. Responsiveness of the operating entities of the Financial Mechanism to guidance from the Conference of the Parties

### B.1. Level of responsiveness to guidance from the Conference of the Parties

17. This section is based on the SCF activities being undertaken to enhance consistency and practicality of guidance provided to the operating entities and an overview of quantity and type of guidance provided so far to the operating entities (i.e. policy, programme priority and eligibility criteria).

18. It was pointed out that guidance provided to the operating entities from the COP is often cumulative, repetitive and ambiguous and it is often formulated with little discussion with the operating entities about ongoing relevant activities or feasibility of implementation. The SCF, through its role of preparing draft guidance to the operating entities for COP's consideration, is undertaking a number of activities to enhance consistency and practicality of guidance provided to the operating entities. This includes: a compilation and analysis (C&A) of previous guidance to the operating entities; discussions on identification of a set of draft core guidance that could serve as a basis for the provision of future guidance; increased collaboration with other constituted bodies in the development of draft guidance and; engaging more regularly with the OE secretariats to obtain factual clarifications and information in checking the feasibility of guidance.

19. The C&A shows that with regard to the distribution of past guidance provided in terms of the criteria as set out in Article 11.1 of the Convention, most guidance provided to the GCF can be described as "Policy"-related, followed by "Other" and "Programme priority". In case of the GEF, most guidance provided falls under "Programme Priority", followed by "Other" and "Policy". The C&A also shows that the operating entities have responded to all of the guidance sent to them by the COP (including 285 paragraphs in 85 decisions for the GEF, and 236 elements of guidance to the GCF since its creation). The SCF reckons that, with further refinements, the C&A could serve as a useful database to track and analyse progress made by the operating entities in undertaking the COP guidance, which may be useful for preparing any additional guidance to be provided to the operating entities.

### B.2. Efficiency and performance of the cycle for project/programme approval procedures of the operating entities of the Financial Mechanism

20. This section illustrates the project cycle of each operating entity and efforts undertaken in both operating entities to address any remaining inefficiencies in the project cycle.

21. The GCF project cycle followed interim procedures until 2017, until updated procedures to streamline the approval process were agreed at the 17th Board Meeting in July 2017. The various actions being put in place include a prioritization process, standards for processing time by the Secretariat and Independent Advisory Panel, the creation of a simplified approval process for small scale projects, revisions of project proposal templates, and delegating approaches of project preparation facilities (PPFs) to the Secretariat, along with the publication of updated guidance. It is expected that the review of the project cycle will be continued at the 18th Board meeting in October 2018.

22. The GEF, as an effort to overcome a set of issues identified by OPS5 that created hurdles for recipient countries, since 2014, the GEF has launched many initiatives to improve its efficiency in approving projects. As a result, as of 2017, all of the projects approved were fully compliant with the new 18-month standard (this figure was 50% in 2015). This was largely due to the approval of a strengthened cancellation policy, as well as to the consolidation of the guidance on the project cycle into a single document and publication of additional guidelines in 2017. Other initiatives included the Harmonization Pilot between GEF and World Bank, which considerable shortened the time spent in designing and approving projects submitted by the Bank

## C. Mobilization of financial resources

23. This chapter mainly draws on the 2016 Biennial Assessment and Overview of Climate Finance Flows, which provides a snapshot of climate finance over the 2013–2014 period. A detailed review of all methodological issues involved in producing the BA is provided in the first chapter of the technical report for the 2016 BA.

### C.1. Role of the Financial Mechanism in scaling up the level of resources

24. As per Article 11.5 of the Convention, the operating entities of the Financial Mechanism serve as channels through which developed country Parties fulfil their financial commitments, in addition to other bilateral, regional and multilateral channels. The OEs play a crucial role in catalysing, leveraging and scaling up the level of resources by providing public finance that leverages additional public and private finance and investment. However, as noted in 2016 BA, the OEs remain a small part of the overall climate finance architecture and flows in the context of the broader climate finance landscape. Their role therefore must continue to be targeted and strategically defined.

### C.2. Scale of resources provided to developing countries

25. The review of resources provided to developing countries concludes that the finances being provided to recipient countries through the Financial Mechanism continue to represent a very small proportion of overall climate finance. Tracking climate finance is a difficult exercise, given that there exists no comprehensive system or methodology, and that data are not always harmonized. As noted in the BA, total adaptation funding provided through the operating entities amounted to USD 0.77 billion in 2013 and USD 0.56 billion in 2014, climate finance provided through multilateral funds amounted to USD 1.85 billion for 2013 and USD 2.49 billion for 2014. The report also notes an increase of about 50% between 2011 and 2014 of climate finance provided by Annex II parties, including through multilateral institutions. Private sector financing as well as South-South Financing all show increasing trends over the biennium.

26. Since the previous review of the Financial Mechanism, the equivalent of USD 10.3 billion was pledged (as of June 2017) for the initial resource mobilization period of 2015–2018, by 43 state governments,

including 9 from developing countries.[17] Of this amount, 10.1 billion had been signed into effectiveness as of June 2017, and 2.2 billion USD had been committed through projects. The GCF Board is continuing efforts to finalize its initial resource mobilization plan, and reports that as at March 2017, 42 countries and regions and 1 city (out of 48 contributors) had signed the contribution agreements for part or all of their pledges, representing 10.1 billion of the 10.3 billion anticipated resources.[18] As at 2 June 2017, approximately USD 10.13 billion of the pledges had been converted into contribution agreements/arrangements, representing just over 98 per cent of the total pledged amount.

27. As per the GCF Board decision, 50% of total resources should be allocated to mitigation projects and 50% to adaptation. As of June 2017, resources allocated through approved projects for mitigation represented 41% or USD 927 million USD, and resources allocated to adaptation projects, 27% or USD 594 million. Resources allocated to projects achieving both mitigation and adaptation represented a further 32%, or USD 718.9 million. In total, GCF's portfolio consists of 43 projects and programmes amounting to USD 2.2 billion (inclusive of USD 1.5 billion through the PSF) which is expected to attract additional USD 5.1 billion in co-financing.

28. The GEF Trust Fund has been the primary source for grants provided by the GEF to recipient countries. GEFTF provides resources for the Climate Change Mitigation (CCM) focal area, technology transfer and enabling activities for fulfilment of Convention obligations by developing countries. Recently, Capacity Building Initiative for Transparency in reporting climate change (CBIT) was also established as a separate trust fund.

29. CCM funding increased steadily from GEF pilot phase to date, with cumulative totals amounting to USD 5.2 billion through 836 mitigation projects and programs in over 165 countries. Currently, negotiations are ongoing for the GEF-7, which will cover the period from 2018 to 2022. Direct funding in support the GEF Climate Change Adaptation (CCA) is currently delivered directly and exclusively through the LDCF and SCCF. They both rely on voluntary contributions that can be made any time. Total cumulative pledges to the LDCF amounts to USD 1.23 billion, of which USD 1.19 billion had been received as of 30 June 2017. Since inception, USD 1.18 billion has been approved for projects, programs and enabling activities under the LDCF. As for the SCCF, cumulative pledges amounted to USD 351.7 million, of which 99 percent had been paid by 15 contributing countries. As at 30 June 2017, the SCCF-A has provided USD 287.9 million for adaptation projects and the SCCF-B has provided USD 60.7 million for 12 projects that support technology transfer.

### C.3. Amount of finance leveraged and modalities of co-financing

30. Even though the GCF does not yet have a clear co-financing policy, it is integral to the decision-making process on funding proposals, as currently captured in the GCF Investment Framework. In fact, many projects submitted to the GEF do provide co-financing from national governments and other project partners. As of June 2017, co-financing expected to be mobilized from the 43 approved projects represented USD 5.1 billion or a ratio of over 2:1. Of these, USD 1.2 billion has come through the Fund's Private Sector Facility. Discussions on whether to define a clearer co-financing policy and method for calculating additional costs have been initiated through the GCF Board. At its 17th meeting, the Board tasked the GCF Secretariat to develop a proposal for the Board's consideration at its 19th meeting, on the development and application of an incremental cost calculation methodology and guidance on the GCF's approach and scope for support to adaptation activities, as well as elements of a policy on co-financing.

31. The GEF's policy on co-financing has evolved over the years and was last updated in 2014. The GEF policy defines co-financing as resources that are additional to the GEF grant. The co-financing ratios have also evolved significantly since the inception phase, with the average rates approaching 7.5:1 for the overall GEF Trust Fund, and 13.8:1 for climate mitigation activities financed under GEF-6. The GEF notes that the

[17] Green Climate Fund, Status of Pledges and Contributions, 20 June 2017 <http://www.greenclimate.fund/documents/20182/24868/Status_of_Pledges.pdf/eef538d3-2987-4659-8c7c-5566ed6afd19>.

[18] See GCF B.17/04, Status of Resources.

climate change focal area has leveraged the highest levels of co-financing. The ratios of co-financing mobilized for LDCF and SCCF funds represent approximately 4:1 and 7.5:1.

**C.4. Adequacy, predictability and sustainability of funds**

32. A broader discussion on the adequacy of resources available to meet the needs of developing countries is hampered by the fact that there is no agreed assessment of financing needs, as well as by the lack of a comprehensive system for tracking climate finance. This poses a challenge to a quantitative assessment of the adequacy of the funds. Nevertheless, some work on this has progressed over the years. In its Adaptation Finance Gap Report, UNEP notes that the costs of adaptation are likely to be two to three times higher than current global estimates by 2030, and could reach 500 billion by 2050. The compilation of needs from NAMAs submitted to the UNFCCC shows that needs expressed through 26 NAMAs approach USD 5 billion, and the analysis conducted for the 2016 BA concluded that the needs expressed in NDCs approached 3.548 trillion.

33. With regards to the adequacy of the resources provided through the operating entities to meet the demands, while there are no official figures available yet, it should be noted that the GCF is currently undertaking exercise with DNAs and FPs to develop country work programs, and with accredited entities to develop entity work programs. Preliminary data merging from these exercises indicate a potential resource requirement of approximately USD 9.19 billion for country work programs and USD 6.26 billion from entity work programs. This would bring the total current demand for GCF resources in the near term to approximately USD 15 billion. The GEF notes, focusing on adequacy of resources for adaptation, that currently available resources under the LDCF are insufficient to meet current requirements for adaptation programming.

34. Concerning predictability and sustainability, during 2014–2017, developed countries continued to undertake efforts to mobilize resources to meet the USD 100 billion commitment by 2020, including through the development of the Roadmap to USD 100 billion which aims at increasing predictability and transparency about how the target will be reached. Moreover, there is ongoing work under the UNFCCC to identify the information to be provided by Parties, in accordance with Article, 9, paragraph 5 of the Paris 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.[19]

35. In relation to finance channelled through the operating entities, GCF's initial resource mobilization period lasts from 2015 to 2018, and the GCF accepts new pledges on an ongoing basis. The Governing instrument specifies that once 60 percent of the resources have been committed to projects, the GCF is expected to set up a systematic a replenishment process. The GCF Board is currently engaged in discussions on how to initiate such a formal replenishment process and this issue is expected to be an important part of its 2018 workplan.

36. As for the GEF, 4-year replenishment process for the GEFTF resources makes it subject to a relatively good level of predictability. There is a high materialization of pledges made to the GEF, however, exchange rate fluctuations in the earlier months of GEF-6 mean that a shortfall from GEF-6 replenishment targets is still expected. The GEF has been working on an ongoing basis to minimize potential consequences of the projected shortfall, aiming to maintain the balance among original allocations in the GEF-6 replenishment decision, assisting LDCs and SIDS in accessing resources and supporting core obligations to the conventions for which the GEF is a/the Financial Mechanism. Over 99 percent of all pledges made by the contributing countries to the GEF for the GEF-6 have been deposited with the Trustee, which is in line with 99 percent of deposit made to all resources pledged since the establishment of the GEF. The GEF Council noted the contribution of the STAR to increased country ownership and country led programming in the GEF,[20] in

[19] Decision 1/CP.21, paragraph 55.

[20] Paragraph 15 of the Joint Summary of the Chairs, 45th GEF Council Meeting.

response to the mid-term evaluation and management response, and the GEF OPS6 also points to the ameliorated predictability of resources created by the STAR.

37. Funding for adaptation at the GEF is subject to less predictability than funding for mitigation. As the LDCF and SCCF are not subject to a replenishment process, they rely on voluntary contributions from developed countries that can be made at any time. However, it is to be noted that, apart from few exceptions, resources have recurrently been pledged to both funds during the meetings of the LDCF/SCCF Council and that there has been an increase in the cumulative level of pledges to both Funds, which have been supported by strong levels of materialization.

## D. Delivery and effectiveness of financial resources

### D.1. Accessibility

38. The accessibility of climate finance has been a significant concern for recipient countries, particularly for the SIDS and LDCs with capacity constraints. Upon examining the eligibility criteria and access modalities put in place by the operating entities of the Financial Mechanism, the review finds that significant efforts have been made to facilitate access to climate finance by a broad range of partners and recipients: from creating specific funding windows of access for private sector under the GCF, as well as measures to increase direct access and access by national entities, to broadening the range of partner Agencies in the GEF through the Expanded Partnership. to Both entities are also engaging actively with recipient countries to increase their understanding of processes and procedures involved in accessing funds, through capacity building, readiness funding and support to national focal points.

39. However, some of major gaps highlighted in a number of studies include: the lack of developing country capacity to devise a national strategy for utilizing available climate finance resources and for attracting climate-friendly investments; legal issues within entities, financial management and integrity, institutional capacity at the design, appraisal and implementation phases, or risk assessment capacity. To overcome these gaps at the international level, scaling up and coordinating financial resources to support capacity-building initiatives have appeared as a need. At the national level, better coordination among the national FPs across different ministries was underscored as being necessary. The increasing complexity of the global climate finance architecture, while in principle creating more choice for recipient countries, could create complications as countries often find it difficult to understand the requirements of the different funds and the differences between them.

### D.2. Timeliness and rate of disbursement

40. An element of effectiveness is the time taken to develop, approve and begin implementation of projects funded through the operating entities. This relates to the speed at which access to climate finance is provided to the “end user” or intended beneficiary.

41. The GCF pipeline has been in flux since the submission of the first projects. Until now, the GCF had not fixed any timelines of standards and processing times hovers at around 18 months. However, this was set to change as a result of discussions undertaken at the 17th Board Meeting in 2017, where the Board instructed the Secretariat to implement a clearer prioritization process for pipeline management, among other measures designed to increase efficiency. The rate of disbursement at the GCF is still relatively low but is growing steadily, owing to the fact that a large number of projects have yet to meet the full conditions for disbursement.

42. As for the GEF, the review finds that the average times spent by projects in the pipeline for approval were reduced since GEF 4 and GEF 5, with only a marginal minority of projects not meeting the 18-month standard. For the LDCF and the SCCF the average preparation time was 20 months. A study undertaken by the GEF Secretariat in 2016 fund that for projects approved in GEF-5, 69% had moved to first disbursement within one year, and 89 percent after two years.

**D.3. Country-ownership of programmes and projects**

43. Country ownership of projects and programmes financed through the Financial Mechanism is ensured mainly through the network of focal point and designated authorities. Country ownership is recognized as a core principle of the GCF, as stipulated in its Governing Instrument and initial investment framework. In this regard, the NDAs play a key role in ensuring country ownership, including among others, to recommend funding proposals to the Board in the context of national climate strategies and plans, and to be consulted on other funding proposals for consideration prior to submission to the GCF in order to ensure consistency with national climate strategies and plans. The GCF Board recently adopted the guidelines for country ownership, which enjoins NDA, AE and delivery partners to follow the guidelines. The guidelines will be assessed annually and reviewed as needed at least every 2 years. Recognizing country ownership is a continual process, the guideline states that the principle will be considered in the context of all GCF operational modalities and relevant policies. The GCF also provides support to foster capacity-building of NDAs, FPs and DAEs to strengthen their capacities to efficiently engage with the GCF.

44. The GEF continues to make efforts to increase the national level ownership of projects and programs, including through readiness and enabling activities and through the development of country program strategies and National Portfolio Formulation Exercises, which are designed to provide a broader group of stakeholders with an opportunity and a voice in the utilization of climate funds. An evaluation undertaken by the GEF IEO found that the NPFE enhanced ownership by creating more inclusive decision-making procedures for GEF programming. With a gradual shift to programmatic approaches, questions related to national ownership will remain of concern, as regional programs generally benefit from less support than national programs.

**D.4. Sustainability of programmes and projects**

45. There are guiding principles that aim to ensure sustainability of the GCF projects, even if many of the GCF funded projects and programs are only beginning implementation or have yet to begin implementation. For example, sustainability is a key aspect of the paradigm shift potential under the GCF investment framework criteria and sustainability is defined therein: “Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment.” In addition, the GCF is actively seeking to finance projects that are scaled up from initial investments from the GEF and others. However, since many of the GCF projects have only just begun implementation, the section focuses more on the sustainability of GEF projects and programs.

46. Even if the GEF does not have a formally established definition of sustainability, the initial criteria for project evaluation mention “sustainability of outcomes and results beyond completion of the intervention.” The GEF evaluation on sustainability found that 77% of projects from the climate change focal area cohort had satisfactory outcome and implementation ratings. Recent evaluations of GEF climate mitigation activities have found evidence of significant impacts in countries as well as evidence of transformational projects. Regarding the sustainability of adaptation results supported through the LDCF and SCCF, the GEF independent evaluation office found that over 98% of NAPA implementation projects showed a high to very high probability of delivering tangible adaptation benefits. The main concern regarding sustainability, across the GEF climate mitigation and adaptation portfolio concerns the financial sustainability of project activities beyond the duration of the project. Lack of assured financing for future phases of implementation or for upscaling remains a concern for most projects. Many terminal evaluations recommend that projects identify and implement self-funding mechanisms in order to move beyond project-based approaches.

**D.5. Enabling environments**

47. As summary reports of workshops on the long-term climate finance note, it is primarily governments in both developed and developing countries that set the enabling environment as it related to policy and regulatory frameworks. However, most programming delivered through climate finance mechanisms aims to strengthen national capacities to achieve this objective. Readiness funding also supports an element of this enabling environment, as it relates to accessing finance. While it is too early to tell whether the GCF funded projects will make a tangible, sustained contribution to enabling environments, the GCF has

highlighted various pathways through which it expects to contribute, including for example the creation of new markets and business activities, changed incentives for market participants, and reduced costs and risks of deploying climate technologies. Furthermore, the GCF is working with countries on the enabling environments also through the funding of readiness requests and NAPs/adaptation planning. A separate activity area under the Readiness Programme for the formulation of NAPs was established by the GCF, where the Executive Director can approve up to USD 3 million to support the formulation of NAPs and other national planning processes.

48. One of the key objectives of the GEF-6 CCM Focal Area is to foster enabling conditions to mainstream mitigation concerns into sustainable development strategies. Recent findings from the OPS6 point to the fact that GEF-6 projects play an important role in strengthening the enabling environment, for instance by proposing legal and regulatory measures to address constraints to mitigation and adaptation, building capacity of public and private entities, reducing information barriers and supporting market change. Furthermore, GEF support to enabling activities for National Communications and Biennial Update Reports, as well as for CBIT also contribute to building institutional and technical capacity of developing countries to meet the transparency requirements.

## E. Results and impacts achieved with the resources provided

### E.1. Mitigation results

49. Of the funding approved by the GCF at June 2017, 41% was dedicated to mitigation, and a further 32% tackled both adaptation and mitigation. The anticipated GHG reductions for these projects totalled 981 million TCo2 eq, with the potential for 58 projects in the pipeline reaching 552 million TCo2 eq reduced or avoided over the lifetime of the proposed activities.

50. The GEF reports that, as of 30 June ,2017, it has supported 867 projects on climate mitigation with over 5.3 billion GEF funding. The total cumulative emissions impact of all mitigation projects supported through the Trust Fund is estimated to be over 8,400MtCO2 eq. In the first three years of GEF-6, projects and programs were estimated to reduce more than 1.9 MtCo2 eq. In 2014, during OPS 5, the GEF evaluation office calculated that the average cost per ton of direct mitigation across all GEF project types was USD 1.2 per tCO2 eq. For the GEF-6 period, partially estimated benefits of 1,920 MtCO2 were achieved with GEF funding of USD 1,174.2 million, which would indicate an average cost of $0.61/tCO2eq. The GEF updated its GHG mitigation calculations methodologies in 2014, coordinated with the IFI Framework for a Harmonized Approach to Greenhouse Gas Accounting Exercise.

### E.2. Adaptation results

51. The GCF estimates 87 million people are projected to benefit from reduced vulnerability and/or increased resilience through projects in its pipeline. For the GEF, from its inception until 30 June 2017, the LDCF approved USD 1.1 billion for projects, programs and enabling activities, including the preparation and implementation of NAPs and NAPAs. In addition, the SCCF provided USD 287.9 million to adaptation projects. The active portfolio under the LDCF is expected to reach 4.4 million beneficiaries and train over 34,000 people on adaptation, while also bringing over 1.1 million hectare of land under resilient management. The LDCF and SCCF have both contributed to the adoption of national policies, plans and frameworks. The 2017 evaluation of the SCCF found that the Fund had delivered significant results in terms of catalytic effect, generation of public goods and demonstration of technologies.

### E.3. Technology transfer

52. The GEF reports that technology transfer for adaptation and mitigation is a key cross-cutting theme for all projects. The GEF reports having supported 31 climate change projects with technology transfer objectives (USD 188.7 million), whereas 10 adaptation projects promoted the adoption of new technology (USD 79.7 million). Since 2008, the Poznan Strategic Program on Technology Transfer was also programmed with USD 35 million from the GEF Trust Fund and USD 15 million from the SCCF. This was used to support for technology needs assessments and financing priority pilot projects, as well as to support

the Climate Change Technology Centres and Network. In terms of adaptation technology, the GEF recognizes that there has been a modest focus on technology transfer for adaptation.

**E.4. Capacity-building**

53. Capacity-building is another cross-cutting theme of both GEF and GCF programming. Targeted capacity building initiatives have included the National Capacity Self-Assessment, as well as enabling activities, technology needs assessments, national portfolio formulation exercises, country programming strategies and readiness support, as well as ongoing support to national focal points, constituencies and designated authorities. According to the GEF report to COP 23, in 2016 alone, the GEF Trust Fund, LDCF and SCCF supported 135 projects with various capacity building priorities. The OPS6 notes that the GEF has had success in influencing the regulatory and policy framework in countries through capacity building and enabling activities. Since the fifth review, the Capacity Building Initiative for Transparency (CBIT) was also launched and operationalized by the GEF. As at 30 June 2017, it had received pledges of USD 54.6 million, and in the last year, 11 projects were approved totalling USD 12.7 million.

## F. Consistency of the Financial Mechanism with the objective of the Convention

54. Article 2 of the UNFCCC stipulates that the ultimate objective of this Convention or any legal instrument adopted by the Convention is to achieve, in accordance with the relevant provisions of the Convention, stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system, within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner. The objective of the Convention is embedded in the Governing Instrument and Strategic Plan of the GCF and the GEF programme priorities that are identified in the initial guidance from the COP and further guidance thereafter. The review finds that mitigation and adaptation objectives of the operating entities are consistent with the objectives of the Convention and programming deployed according to these objectives is also consistent with the objectives of the Convention.

## G. Consistency and complementarity of the Financial Mechanism

**G.1. Consistency and complementarity between the operating entities of the Financial Mechanism**

55. This section summarizes the steps that the operating entities have been taking to promote consistency and complementarity between themselves at the strategic and operational levels, and the pathways for collaboration that have been identified and applied since the fifth review of the Financial Mechanism.

56. At the GCF, the issue of consistency and complementarity is inscribed in its Governing Instrument. The initial strategic plan of the GCF highlights the comparative advantages of the GCF and notes the need to operate in coherence with other climate finance institutions. The GCF operational framework on complementarity and coherence was recently adopted at the 17th Board meeting, which provides guidance on pursuing complementarity at Board/strategic level, Enhanced complementarity at the activity level, at the national programming level, and at the level of delivery of climate finance through an established dialogue.

57. The GEF also notes that each fund may play different, complementary roles that can produce higher impacts and leverage more resources, if combined strategically. During GEF-6, given the growing significance of climate change influence on all areas of GEF interventions, the GEF CCM strategy sought to enhance synergies across focal areas and to enhance complementarity with other climate financing options, including the GCF. The ongoing policy debate around GEF-7 provides a unique opportunity to further refine the comparative advantages of the GEF.

58. Beyond the definition of strategic-level comparative advantages, both operating entities have sought to operationalize their complementarity. The Executive Director of the GCF and the GEF CEO have met a number of occasions to explore potential cooperation at the operational level. At the secretariat level, the

GCF and the GEF secretariats frequently communicate on a wide range of topics and activities, such as mitigation and adaptation strategies, the status of resource allocation, project cycle modalities and lessons, project preparation grant guidelines, private sector engagement, templates, co-financing policy, accreditation of agencies, financial master agreements, trustee arrangements, as well as readiness and preparatory support. Secretariats of the two operating entities attend each other's' Board/Council meetings to respond to any questions as needed, and shares information and lessons learned from their work.

59. In fact, coordination and collaboration between the two operating entities have already led to some greater consistency and convergence between the policies, strategies and programmes between the two operating entities. Some of these areas of convergence are highlighted in chapter A of this technical paper, notably in terms of governance modalities, transparency of decision-making and information disclosure polices, as well as the application of increasingly convergent environmental, gender and social standards. Of particular interest is the scheduled revision of many of the key policies of the GCF in 2017 and 2018, as well as the policy revisions which have been initiated by the GEF, including those launched by the GEF-7 replenishment discussions in the same period. As these policies are reviewed by the GCF and the GEF, lessons learned and best practices can be integrated through coordination and information sharing between the entities and their secretariats.

60. The COP has further provided specific guidance to the GCF to "enhance its collaboration with existing funds under the Convention and other climate relevant funds in order to enhance the complementarity and coherence of policies and programming at the national level. The two operating entities are working to promote complementarity at the national level through national planning exercises such as the GCF country programmes and the GEF NPFEs. Funding approvals by the GCF to date show how GEF in some cases has helped paved the way for leveraging and enabling investments from the GCF. A recent report updating on the implementation of the GEF 2020 strategy noted that "'Organic' complementarity between the GEF and GCF is gradually emerging, as GCF ramps up project approvals.

61. More specifically on the national level, an overview of a country's national context, policy framework and respective climate action agenda is summarized in a GCF country programme. In this exercise, a country identifies a pipeline of projects or programmes that they would like to undertake with the GCF, aligned to GCF strategic impacts, investment criteria and operational modalities. This exercise is similar to the NPFE process undertaken in the GEF. Furthermore, the GEF country support programme supports the execution of National Dialogue initiatives, in which representatives or FPs for other climate finance mechanisms may participate. In order to harness full opportunity to enhance coordination on the national level, a WRI report suggests "countries to identify one ministry or body that serves as the national FP or authority for all the climate funds." The same report also notes that there may be value in establishing a broader readiness hub or programme, or in combining readiness funds, that addresses overall planning and pipeline needs.

**G.2. Consistency and complementarity between the operating entities of the Financial Mechanism and other sources of investments and financial flows**

62. As noted in the fifth Review, the global architecture of climate finance is rapidly evolving and becoming increasingly complex. Decision 11/CP.1 paragraph 2(a) states that consistency should be sought and maintained between the policies, programme priorities and eligibility criteria for activities established by the COP and the climate change activities beyond the framework of the Financial Mechanism. As the GCF has been working on becoming fully operational since the fifth review, the operating entities and other institutions have been cooperating by exchanging lessons learned and experiences in order to inform the development of the operational policies of the funds. While each fund and mechanism has a distinct comparative advantage, and aims at supporting different objectives, there is increasing convergence between the strategies, policies, eligibility criteria, processes – and as a result, projects and program – being supported by the various funds.

63. A matrix analysis was undertaken across a selected set of active multilateral funds to assess consistency and complementarity between the operating entities and other funds on adaptation and mitigation. On adaptation programming, a matrix analysis was done on the following funds: GEF (SCCF/LDCF); GCF; AF; CIF (PPCR); UN CDF LoCAL. Following observations can be made.

a. There is convergence in the various mechanisms' goals and objectives of either "promoting resilience", "building adaptive capacity" or "supporting adaptation." One mechanism specifically refers to SDGs in its objectives;

b. A clear observation of how the mechanisms complement each other, or the specific niche or role of each mechanism in the climate finance landscape is not possible from a review of their strategic programming directives. The articulation of these strategic directions, against which projects are often assessed, range from higher-level or more general principles (i.e. paradigm shift, awareness, country driven) to statements more specifically focused on vulnerability, resilience and adaptation. Some commonalities include addressing social, physical and economic aspects of the impacts of climate change, alignment and integration into development and development plans. Only one of the funds described has a narrowly defined specialization in infrastructure;

c. The LDCF is the only fund supporting the preparation of NAPAs. The GEF, the LDCF, the GCF and the AF each support the implementation of NAPAs and the preparation or implementation of NAPs. The difference in support received from each is not identified;

d. The LDCF, the AF and UNCDF LoCAL provide only grants while the PPCR and GCF also provide highly concessional loans and grants. The GCF also provides other non-grant financing, such as equity investments, risk guarantees, highly concessional loans, debt instruments, and is also developing a results-based payment approach for REDD+. This may be an indicator of the scope and type of projects and programmes supported by each fund.

64. On mitigation programming, a matrix analysis was done on the following multilateral and bilateral funds: GEF; GCF; CIF (CTF); UK International Climate Finance; International Climate Initiative. Following observations can be made.

a. There is a degree of consistency between the objectives and goals of the various mechanisms in that they seek to support countries' transitions towards low-carbon development;

b. A significant portion of the funds examined focus on a specific theme or sector, for example energy or forests, while the GEF and the GCF include the full spectrum of sectors in which to achieve potential emission reductions;

c. Furthermore, while the two operating entities are focused on the "incremental costs" of mitigation activities, other funds and mechanisms make fewer distinctions, while they offer a larger scope of financial instruments.

65. Furthermore, on technology programming, a comprehensive overview of initiatives relevant to climate technology development and transfer was undertaken by the secretariat upon request by the subsidiary bodies. Based on patterns and trends observed in the landscape of technology development and transfer, the mapping generated useful insights, including:

a. There are fewer adaptation technology programmes than those directed at mitigation. Yet, this may change under the GCF, in terms of allocation of funds, which would allow further implementation of adaptation technology activities and programmes;

b. Although support for climate technologies, including finance, is increasing, it is more prevalent at the research and development and commercial or diffusion stages, leaving a gap at the demonstration and early stages of commercialization;

c. There are growing numbers of international forums, partnerships, forums and networks on technology development and transfer. Yet, to gain insight into the actual level of synergy and coordination between existing activities and initiatives, additional information would have to be gathered;

d. The need for concerted action and coordination to accelerate the deployment of technologies that face unique sets of barriers is illustrated in the growth of technology-specific initiatives and programmes that have been created to address the unique technological, policy, institutional and financial barriers that these technologies face, in a coordinated and targeted manner;

e. While a few knowledge sharing and management initiatives provide overviews of relevant initiatives and programmes, there is no one place that offers a comprehensive overview, which makes it challenging and time-consuming to find all information about existing technology programmes and the nature of the support that they provide and the links and overlap between them.

66. On capacity-building programming, the GCF is undertaking efforts to provide capacity-building support, primarily through its readiness and preparatory support programme, a strategic priority for the GCF that was established to strengthen and build enabling environments to allow developing countries to access GCF resources. In particular, the GCF is strengthening its support to countries in order to build their capacity for direct access. Furthermore, the GCF is the convener and facilitator of the RCM, an initiative to coordinate institutions independently providing readiness support to enable countries to access GCF funding, with core members of the AfDB, the Commonwealth Secretariat, GIZ, KfW, the UNEP, the UNDP and the WRI, and a number of observer institutions.

67. Capacity-building efforts at the GEF included the National Capacity Self-Assessments (NCSAs), which were designed to assist countries in identifying capacity needs to implement the Rio conventions, including the UNFCCC. The GEF provides support to the priority areas identified in the capacity-building framework and enabling activities for developing countries to meet the transparency requirements under the Convention. The CBIT is the most recently established capacity-building programming at the GEF,[21] that aims to support the institutional and technical capacities of developing countries to meet the enhanced transparency requirements of the Paris Agreement.

## III. Recommendations by the SCF

68. [Placeholder – to be circulated to the SCF prior to the meeting]

[21] Decision 1/CP.21, paragraph 84–86.