



Background paper on the fifth review of the financial mechanism

I. Background

1. The Conference of the Parties (COP), at its 18th session, initiated the 5th review of the FM and requested the Standing Committee on Finance (SCF) to further amend the guidelines for the review of the FM and to provide draft updated guidelines for consideration and adoption by COP 19, taking into account existing guidelines annexed to decisions 3/CP.4 and 6/CP.13 and recent developments within the FM. It also requested the SCF to provide periodic updates on the status of its work relating to the fifth review of the FM to the Subsidiary Body for Implementation (SBI) for its consideration, beginning at SBI 38, with the aim of ensuring an inclusive and transparent process.¹
2. At its 19th session, the COP adopted the updated guidelines for the fifth review of the financial mechanism and requested the SCF to continue to provide expert input to the fifth review of the financial mechanism, with a view of the review being finalized by the COP at its 20th session.²
3. The 5th review of the FM covers the period from 2010 to 2014. As a background, the table in annex I to this document provides an overview of the evolution of the FM with key milestones and outcomes of the previous reviews of the FM.
4. This background paper aims at providing an overview of a possible process and timeline that the SCF may wish to consider in fulfilling its mandate with regards to the fifth review of the FM.

II. Possible general approach on the expert input to the fifth review of the financial mechanism

5. The expert input that the SCF is requested to provide to the 5th review of the FM may consist of a set of conclusions and recommendations for consideration by Parties when they finalize the review at COP 20. Such input may be based on a thorough analysis of the financial mechanism to be conducted by the SCF.
6. It is proposed that the secretariat prepares a technical paper on the review of the FM, taking into account the guidelines adopted at COP19. In preparing the document, the secretariat will be guided by the SCF working group on the review of FM.
7. Based on the analysis and findings of the technical paper, the working group will prepare draft conclusions and recommendations to the COP, for consideration by the whole Committee at its 7th and 8th meetings. A concept note for the technical paper including a proposed outline and methodology for the assessment is contained in annex II to this background document.
8. The SCF may also wish to take into account the following possible linkages between this task and its other activities:
 - a. The work on the first biennial assessment and overview of climate finance flows (BA), of which some of the findings related to the level of finance mobilized will serve as key input to the review of the FM. This strong linkage is expected to have implications on the preparation of the technical paper mentioned in paragraph 6 above. This linkage is further elaborated in the draft concept note of the technical paper in annex II to this background document;
 - b. The discussions related to the development of guidance to the operating entities of the financial mechanism of the Convention in 2014, as these discussions might also serve as input to the work on the review.

¹ Decision 8/CP.18.

² Decision 8/CP.19.



III. Possible action to be taken by the SCF at its sixth meeting

9. At its 6th meeting, the SCF may wish to agree on the approach as well as the possible work plan outlined in this background for its work on the fifth review of the FM.

**Annex I: Key milestones of the financial mechanism of the Convention including outcomes of its previous reviews**

| Session | Key outcomes | Relevant decisions |
|---------|---|--------------------|
| COP 4 | <ul style="list-style-type: none">• The GEF is entrusted as an operating entity of the financial mechanism of the Convention• The COP adopts guidelines for the review of the effectiveness of the mechanism to take place every four years | 3/CP.4 |
| COP 7 | <ul style="list-style-type: none">• The COP discussed funding under the Convention and decided that in order to meet their commitments under Articles 4 of the Convention, Parties included in Annex II, and other Parties included in Annex I that are in a position to do so should provide funding to developing country Parties through:<ul style="list-style-type: none">○ Increased Global Environment Facility replenishment;○ The special climate change fund, established at that session;○ The Least developed countries fund, established at that session;○ Bilateral and multilateral sources. | 7/CP.7 |
| COP 8 | <ul style="list-style-type: none">• The COP concluded the second review of the financial mechanism, with guidance to the GEF on, inter alia:<ul style="list-style-type: none">○ Reviewing its project cycle with a view to make it simpler and more efficient○ Enhancing the understanding of the concept of agreed incremental cost and global benefits○ Strengthening consistency of GEF activities with national priorities | 5/CP.8 |
| COP 12 | <ul style="list-style-type: none">• The COP concluded the third review of the financial mechanism, by which the COP provided guidance to the GEF with an emphasis to financing for adaptation, ease of access of least developed countries and small island developing States to the funding of the GEF. | 2/CP.12 |
| COP 13 | <ul style="list-style-type: none">• In the context of the Bali Action Plan for enhanced action on resources and investment, the COP agreed on an additional objective of the review of the financial mechanism aiming at examining how to facilitate consistency and complementarity of the financial mechanism with other sources of investment and financial flows | 6/CP.13 |
| COP 15 | <ul style="list-style-type: none">• Developed country Parties pledged to provide USD 30 billion for the period 2010–2012 with balanced allocation between mitigation and adaptation, also known as fast-start finance• Developed country Parties committed, in the context of meaningful mitigation actions and transparency of action, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries | |
| COP 16 | <ul style="list-style-type: none">• The Cancun agreements marked an important milestone in the financial mechanism.<ul style="list-style-type: none">○ The COP established the Green Climate Fund as an operating entity of the financial mechanism;○ The COP established the SCF with the view of the Committee assisting the COP in exercising its functions in relation to the financial mechanism○ The COP reaffirmed the commitments made by developed country Parties at COP 15 on the mobilization of climate finance○ The COP concluded the fourth review of the financial mechanism and provided guidance to the GEF on further simplifying and improve timeliness of its project cycle, as well as on continuing to improve its modalities to increase the responsiveness, effectiveness and efficiency of its support | 1/CP.16 2/CP.16 |
| COP 19 | <ul style="list-style-type: none">• The COP adopted updated guidelines for the fifth review of the review being finalized at COP 20 | 8/CP.19 |



Annex II: Concept note of the technical paper for the work of the SCF on the fifth review of the financial mechanism

I.1 Scope and methodology of the technical paper

1. The updated guidelines for the fifth review of the financial mechanism will be the basis for assessing the effectiveness of the financial mechanism. The technical paper will analyse the available data and sources of information against the criteria identified for the review contained in paragraphs 3 (a-j) of the annex of decision 8/CP.19. It is proposed to group the criteria into the following clusters of issues:¹
 - i. Governance;
 - ii. Responsiveness to the COP guidance relating to programme priorities and policies;
 - iii. Mobilization and delivery of financial resources;
 - iv. Consistency with the objective of the Convention.
2. Inputs on clusters on mobilization and consistency with the objective of the Convention will come from the work of the SCF on the biennial assessment and overview of financial flows which will only be available by the second half of 2014. In this regard, these clusters may be considered along with the biennial assessment at the 8th meeting of the SCF while clusters 1-2 may be considered first by the SCF at its 7th meeting. .
3. Inputs from bilateral and multilateral channels of delivery of climate finance may also be useful in assessing the level of consistency and complementarity of the financial mechanism with other sources of investment and financial flows as stipulated in the guidelines for this review. The SCF may wish to consider preparing a questionnaire to be sent to these institutions in order gather such information.

Timeline of delivery of the technical paper on the fifth review

| Technical Paper | Clusters of issues | Deadline for delivery | Action by the SCF |
|-----------------|--|------------------------------------|---|
| Part 1 | Governance Responsiveness to the COP guidance relating to programme priorities and policies | 7 th Meeting of the SCF | SCF to consider draft recommendations on the first two clusters, prepared by the working group on the fifth review based on the findings of the technical paper. |
| Part 2 | Mobilization and delivery of financial resources Consistency with the objective of the Convention | 8 th Meeting of the SCF | SCF to consider draft recommendations on the last two clusters, prepared by the working group on the fifth review based on the key findings, and to conclude it input to be forwarded to the COP. |

¹ A breakdown of the clusters is provided in annex III to this document.



I.2 Draft outline of the technical paper

- I) Introduction
- II) Mandate
- III) Objective of the technical paper
- IV) Scope and methodology
- V) Assessments and key findings
 - A. Background
 - B. Governance
 - 1. Transparency of decision-making processes of the operating entities of the financial mechanism
 - 2. Level of stakeholder involvement
 - 3. Gender sensitive approaches
 - C. Responsiveness to the COP guidance relating to programme priorities and policies
 - 1. Responsiveness and efficiency of the GEF project cycle
 - 2. Country-ownership of programmes and projects
 - 3. Sustainability of funded programmes, projects and operations in developing country Parties
 - D. Mobilization and delivery of financial resources
 - 1. Amount of resources provided to developing country Parties
 - 2. Amount of finance leveraged and modalities of co-financing
 - 3. Adequacy, predictability, accessibility and timely disbursement of funds
 - E. Consistency with the objective of the Convention
 - 1. The extent to which the resources provided are contributing to achieve the objectives of the Convention
 - 2. Role of the financial mechanism in scaling-up the level of resources
 - 3. Enabling environments

**Annex III: Possible clusters for assessing the effectiveness of the financial mechanism**

| Criteria | Rationale | Sources of information |
|---|--|--|
| Governance | | |
| Transparency of decision-making processes of the operating entities of the financial mechanism | The assessment under this criterion will explore what are the provisions of the Convention in terms of transparency of decision-making process and how the operating entities have been responding to those provisions. | <ul style="list-style-type: none"> • Reports of the GEF Independent Evaluation Office (OPS5) • Governing Instrument of the GCF • Decisions and guidance from the COP • Available documentation on the decision-making process of the Adaptation Fund Board |
| Level of stakeholder involvement | As an important element that influences the viability and impact of the programmes and project funded, this criterion will examine the policies on stakeholder involvement that are in place and the outcomes of their implementation. | <ul style="list-style-type: none"> • OPS5 Report • Information from the OEs on the stakeholders involvement • Information from the AFB secretariat • Reports of the operating entities (OEs) |
| The extent to which the financial mechanism is contributing to gender-sensitive approaches | COP16 recognizes that gender equality and effective participation of women are important for effective action on all aspects of climate change. The assessment of this criterion will investigate on how and to which extent the operating entities are supporting gender sensitive approaches and active participation of women in combatting climate change. | <ul style="list-style-type: none"> • OPS5 Report • Information from the OEs on gender sensitive approaches • Information from the AFB secretariat • Reports of the OEs to the COP |
| Responsiveness to the COP guidance relating to programme priorities and policies | | |
| Responsiveness and efficiency of the GEF project cycle and expedited procedures, including its operational strategy, as they relate to climate change | This criterion will be assessed based on how the GEF and its agencies have improved the project cycle for an expedited and effective implementation of programmes and projects in developing countries | <ul style="list-style-type: none"> • OPS 5 reports • Report of the GEF to the COP • Information from the GEF secretariat • Information available on experience from Parties in dealing with the GEF • Information available on the GEF project cycle |
| The extent to which the financial mechanism is contributing to country-ownership of programmes and project | The assessment under this criterion will aim at providing the SCF with a clear picture of the measures in favor of country ownership of programmes and project, that have been undertaken by the operating entities. | <ul style="list-style-type: none"> • OPS5 reports • Information from the secretariats of the OEs • Reports of the OEs to the COP • Information contained in national communications of Parties to the Convention, technology needs assessments and national adaptation programmes of action; • Information on fast-start finance provided by developed countries and other information on fast-start finance • |



| Criteria | Rationale | Sources of information |
|--|--|---|
| Sustainability of funded programmes, projects and operations in developing country Parties | The assessment of the financial mechanism against this criterion will look into how sustainable are the programmes, projects and operations in developing countries and the factors that influence such sustainability. | <ul style="list-style-type: none"> • OPS 5 reports • Report of the GEF to the COP • Information from the GEF secretariat • Information available on experience from Parties in dealing with the GEF |
| Mobilization and delivery of financial resources | | |
| Amount of resources provided to developing country Parties, including financing for technical assistance and investment projects, and the mechanisms for country allocation, as well as the results and impacts achieved by the resources provided | The assessment of this criterion will build on the findings of the biennial assessment and overview of financial flows. In this context, the assessment will aim at providing the SCF with an overview of climate finance flows including their thematic and geographical distribution, as well as the mechanisms for country allocation of the resources and the results and impacts achieved. | <ul style="list-style-type: none"> • Biennial assessment and overview of financial flows • Report of the GEF to the COP • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • Independent analysis and reports on climate finance flows (e.g. WRI, ODI, CPI, CERES, etc.) |
| Amount of finance leveraged and modalities of co-financing | The assessment of this criterion will also be informed by the biennial assessment and overview of financial flows and it will look into how much financing has been leveraged through the financial mechanism and the challenges and opportunities associated with co-financing when applied under the financial mechanism. | <ul style="list-style-type: none"> • Biennial assessment and overview of financial flows • Reports of the OEs to the COP • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • OPS 5 reports • Information available on modalities of co-financing, if applied, from bilateral and multi-lateral agencies • |
| Adequacy, predictability, accessibility and timely disbursement of funds | The review of the financial mechanism against this criterion with focus on the efforts being undertaken by the developed country Parties to provide adequate and predictable resources to developing countries for the implementation of the Convention. It will look into the access modalities of the operating entities thereby providing the SCF with the possible challenges faced by developing countries in accessing funding. It will look into factors that promote or hinder the timely disbursement of the funds. | <ul style="list-style-type: none"> • OPS 5 reports • Reports of the OEs to the COP • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • Information available on the access modalities of bilateral and multilateral entities • Information available on the level of disbursement of the funds by the bilateral and multilateral entities • UNDP country reports on CPEIR |



| Criteria | Rationale | Sources of information |
|--|--|---|
| Consistency with the objective of the Convention | | |
| The extent to which the resources provided are contributing to achieve the objectives of the Convention | The assessment under this criterion will aim at providing the SCF with an understanding of whether the climate finance contribute to the achievement of the objectives of the Convention | <ul style="list-style-type: none"> • Biennial assessment and overview of financial flows • Reports of the OEs to the COP • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • OPS 5 reports • Independent analysis on climate finance flows |
| Role of the financial mechanism in scaling-up the level of resources | The assessment under this criterion will investigate on the efforts being undertaken to scale-up the level of resources to support climate action by developing countries. | <ul style="list-style-type: none"> • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • Report on the work programme on long-term finance • Report on the work programme on Result-based finance • |
| Enabling environments for catalyzing investment in, and the transfer of, environmentally sound technologies that mitigate greenhouse gas emissions, and for enhancing resilience to climate change | The assessment under this criterion will investigate on the efforts being undertaken to enhance enabling environments for investment in, and the transfer of, environmentally sound technologies that mitigate greenhouse gas emissions, and enhance resilience to climate change. | <ul style="list-style-type: none"> • Information contained in national communications and biennial reports of annex I Parties to the Convention • Information on fast-start finance provided by developed countries and other information on fast-start finance • Report on the work programme on long-term finance • Report on the work programme on Result-based finance • |

**Annex IV Possible timeline and key milestones of the SCF work on the fifth review in 2014**

| | 2014 | | | | | | | | | | | |
|---|-----------|---------|-----|---------|---------|-----------|---------|-----|-----|----------|----------|---------|
| | Early-Mar | End-Mar | Apr | Mid-May | End-May | Early-Jun | End-Jun | Jul | Aug | Mid-Sept | End-Sept | Mid-Oct |
| 6 th Meeting of the SCF: Convening of SCF working group on the fifth review | | | | | | | | | | | | |
| Call for inputs from bilateral and multilateral organization | | | | | | | | | | | | |
| Preparation of the first draft of the technical paper (clusters 1-2) for consideration by the working group on the review | | | | | | | | | | | | |
| Inter-sessional work of the working group in reviewing the first draft prepared by the secretariat and drafting conclusions and recommendations for SCF-7 | | | | | | | | | | | | |
| Update to SBI 40 on the fifth review | | | | | | | | | | | | |
| 7 th Meeting of the SCF: consideration of the draft conclusions and recommendations prepared by the working group on the basis of clusters 1-2 of the technical paper ^a | | | | | | | | | | | | |
| Preparation of the first draft of the technical paper (clusters 3-4) for consideration by the working group on the review | | | | | | | | | | | | |
| Inter-sessional work of the working group in reviewing the first draft prepared by the secretariat and drafting conclusions and recommendations for SCF-8 | | | | | | | | | | | | |
| 8 th Meeting of the SCF: consideration of the draft conclusions and recommendations prepared by the working group on the basis of clusters 3-4 of the technical paper ^b , and finalization of the expert input to be forwarded to the COP | | | | | | | | | | | | |

^a Both the technical paper (part 1) and the draft conclusions and/or recommendations by the working group will serve as input to the discussions on the fifth review at the 7th meeting of the SCF.

^b Both the technical paper (part 2) and the draft conclusions and/or recommendations by the working group will serve as input to the discussions on the fifth review at the 8th meeting of the SCF.