



Background paper on the initial draft of the consolidated guidelines for the fifth review of the financial mechanism of the Convention

1. The Conference of the Parties (COP), at its eighteenth session, initiated the fifth review of the financial mechanism (FM) was initiated. The Cop 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, with a view to finalizing the fifth review of the FM by COP 20.
2. The COP mandated the SCF, in developing the draft updated guidelines, to take into account existing guidelines and recent developments within the FM, drawing upon information from, inter alia, fast-start finance, the work of the Green Climate Fund (GCF), taking into account its early stage of operationalization, the initial review of the Adaptation Fund and the work programme on long-term finance.
3. Parties were invited to submit by 1 March 2013, for consideration by the SCF, their views and recommendations on elements in the development of the further guidelines for the fifth review of the FM.¹
4. The SCF, during its third meeting, focused its discussion on the scope of the fifth review of the FM and on what information should be taken into account. Based on the broad understanding that existing guidelines provide a strong basis to promptly start the preparations for the technical work on the fifth review of the FM, the SCF agreed on the establishment of a working group to follow up on this issue. It was agreed that the working group would continue to work inter-sessionally on the basis of the existing consolidated guidelines, submissions by Parties and views expressed by members at the meeting.
5. In accordance with this agreement, members of the working group held one conference call inter-sessionally focused on the issue of possible guidelines for the fifth review of the FM. As a result of this discussion, members participating in the call agreed to request the secretariat to prepare a draft consolidation of the existing guidelines. This draft is contained in the annex to this document. Although some members expressed their comments via email following the circulation of the draft consolidated guidelines, no further follow up was undertaken by the working group.
6. The co-chairs of the SCF provided an update on the status of its work relating to the fifth review of the FM to the Subsidiary Body for Implementation (SBI) at its thirty-eighth session held 3–14 June in Bonn, Germany, following the request made by Parties at COP 18. The report was well received by Parties.
7. The SCF may wish to engage in in-depth discussions with a view to finalize the draft guidelines to be presented to COP 19 during its fourth meeting, based on the initial draft of the consolidated guidelines and the inter-sessional work of the working group.

¹ All submissions are to be found at: https://unfccc.int/documentation/submissions_from_parties/items/5916.php.



Annex - Draft consolidated guidelines for the review of the financial mechanism

A. Objectives

1. In accordance with Article 11.4 of the Convention, the objectives will be as follows:
 - (a) To review the financial mechanism and take appropriate measures regarding:
 - (i) Its conformity with the provisions of Article 11 of the Convention;
 - (ii) Its conformity with the guidance of the Conference of the Parties (COP);
 - (iii) The effectiveness of the activities it funds in implementing the Convention;
 - (iv) Its effectiveness in providing financial resources on a grant or concessional basis, including for the transfer of technology, for the implementation of the Convention's objective on the basis of the guidance provided by the COP;
 - (v) Its effectiveness in providing resources to developing country Parties under Article 4.3 of the Convention;
 - (b) To examine how to facilitate consistency in financing activities and how to improve the complementarity of the financial mechanism with other sources of investment and financial flows, including:
 - (i) Examining relevant sources and means of financing, as indicated in Article 11, paragraph 5, of the Convention, that would assist developing countries to contribute to the achievement of the objective of the Convention, in particular innovative means of financing, such as for the development of endogenous technologies in developing countries;
 - (ii) Examining the role of the financial mechanism in scaling up the level of resources;
 - (iii) Assessing enabling environments for catalysing investment in, and the transfer of, sustainable technologies that mitigate greenhouse gas emissions, and for enhancing resilience to climate change.

B. Methodology

2. The review shall draw upon the following sources of information:
 - (a) Information provided by the Parties on their experiences regarding the financial mechanism;
 - (b) Annual reviews by the COP on the conformity of the activities of the financial mechanism with the guidance of the COP;
 - (c) The annual report of the Standing Committee on Finance (SCF) to the COP on its activities and other relevant information documents regarding the SCF;
 - (d) The annual report of the Global Environment Facility (GEF) to the COP on its activities as the operating entity of the financial mechanism, the annual reports of the GEF and other relevant GEF policy and information documents;
 - (e) Reports from the GEF monitoring and evaluation programme;
 - (f) The annual report of the Green Climate Fund (GCF) to the COP on its activities as the operating entity of the financial mechanism, the annual reports of the GCF and other relevant GCF policy and information documents;
 - (g) Reports from the United Nations Commission on Sustainable Development and relevant bilateral and multilateral funding institutions;
 - (h) All relevant information provided by other intergovernmental and non-governmental organizations, including in particular the Assessment Reports of the Intergovernmental



Panel on Climate Change, as well as information on enabling environments for catalysing investment in, and the transfer of, sustainable technologies that mitigate greenhouse gas emissions and for enhancing resilience to climate change;

- (i) Technical papers and reports prepared by the secretariat upon the request of the Conference of the Parties, which are relevant to the financial needs of developing countries under the Convention;
- (j) Information contained in the national communications of Parties to the Convention, technology needs assessments and national adaptation programmes of action;
- (k) Relevant information available on the following:
 - (i) Private-sector financing and investment for climate change activities;
 - (ii) Fast-start finance;
 - (iii) The initial review of the Adaptation Fund;
 - (iv) The work programme on long-term finance.

C. Criteria

- 3. The effectiveness of the financial mechanism will be assessed taking into account the following:
 - (a) The transparency of decision-making processes;
 - (b) The adequacy, predictability and timely disbursement of funds for activities in developing country Parties;
 - (c) The responsiveness and efficiency of the GEF project cycle and expedited procedures, including its operational strategy, as they relate to climate change;
 - (d) The amount of resources provided to developing country Parties, including financing for technical assistance and investment projects;
 - (e) The amount of finance leveraged;
 - (f) The sustainability of funded projects.
-