



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

I. Background

1. The Conference of the Parties (COP), at its eighteenth session, initiated the fifth review of the financial mechanism (FM). 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. The COP 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 its thirty-eighth session, with the aim of ensuring an inclusive and transparent process.
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 basis to promptly start preparations for the technical work on the fifth review of the FM, the SCF agreed to establish 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 focusing 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.
6. Following the request made by Parties at COP 18, the co-chairs of the SCF organized a side event during the thirty-eighth session of the SBI, held 3–14 June 2013, which included the provision of an update on the status of its work relating to the fifth review of the FM.
7. During its fourth meeting, the SCF considered the revised draft consolidated guidelines prepared by the co-chairs, which took into account submissions received from members and a submission made by Colombia for consideration by the SCF. Consequently, the members agreed to continue working on this issue inter-sessionally with a view to finalizing its work at its fifth meeting and also agreed that members will submit their views on the revised draft text by end of July 2013. The secretariat has received 3 submissions from members as of 16 August 2013, which can be found at SCF/2013/5/8.
8. Procedurally, the COP has not identified the next steps in the conduct of the fifth review in 2014, i.e. it has not mandated any bodies under the Convention to prepare draft recommendations to COP20. However, the SCF is mandated, in decision 2/CP.17, paragraph 121(e), to provide expert input, including independent reviews and assessments, into the preparation and conduct of the periodic reviews of the FM by the COP.
9. It is in this context that the SCF may wish to consider the following tasks at this meeting:
 - Finalization of the draft updated guidelines to be presented to COP 19 based on the updated draft of the consolidated guidelines as contained in annex I, submissions made by members as well as the inter-sessional work relevant to this issue.

¹ All submissions are available at: http://unfccc.int/documentation/submissions_from_parties/items/5916.php.



- Consider possible next steps in the conduct of 5th review of FM (see annex II) for endorsement by the COP.

II. Possible elements to be included in the updated guidelines

10. In considering the amendment of the existing guidelines, the SCF members broadly acknowledged that the existing guidelines provide a basis to conduct the review and initiate the technical work on the fifth review of the FM.

11. The SCF, at this meeting, may wish to identify the elements that may be included in the amended guidelines, based on submissions by Parties and members, views expressed by members in previous meetings and a variety of information listed in the existing guidelines for the review of the financial mechanism, and finalize the draft updated guidelines.

III. Draft work plan to conduct the fifth review of the FM

12. The SCF may wish to consider preparing a work plan for the conduct of the fifth review of the FM for endorsement by the COP considering that the fifth review of the FM will be concluded by COP 20. Possible activities and timelines can be found in annex II to this document.

13. The technical work for the conduct of the fifth review may imply costs to support the secretariat depending on the tasks and activities that the SCF will adopt. The SCF may wish to consider the following when developing the work plan:

- The substantive and procedural link between biennial assessment of flows and the 5th review of financial mechanism;
- The type of information needed as input into the review and its collection and analysis;
- Establishing a working group which consists of some selected members to guide the technical work and the preparation of the draft report.



Annex I: Revised draft of the consolidated guidelines for the fifth review of the financial mechanism

Note:

- 1) Letters in black: Existing guidelines based on decision 3/CP.4 and 6/CP.13
- 2) **Letters in red**: initial inputs provided by SCF members and Parties before its fourth meeting
- 3) **Letters highlighted in yellow**: additional inputs provided by SCF members after its fourth meeting

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) **bis** The determination of how the Green Climate Fund and the Global Environment Facility, as operating entities of the financial mechanism of the Convention, fulfil the requirement of accountability to the ~~Conference of the Parties-COP~~;
 - (iv) The effectiveness of the activities it funds **on the ground, which serve the implementation of in implementing the Convention, in terms of their contribution to a shift of paradigm at the global level toward a low-carbon, climate resilient development pathway** **in meeting the agreed full costs and agreed full incremental costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1 and in implementing the Convention**];
 - (v) 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;
 - (vi) Its effectiveness in providing **new and additional, adequate and predictable** resources to developing country Parties under Article 4.3 of the Convention, **taking into account appropriate burden sharing among the developed country Parties**;
 - (vii) **Its effectiveness in providing direct access of the developing countries to the funds and enhancing developing countries ownership in every step of the program/project cycle including decision making process**;
 - (viii) The coherence and complementarity of the activities undertaken by the different operating entities of the financial mechanism;
 - (ix) The appropriateness of the balance in the allocation of resources that flow through the financial mechanism for adaptation and mitigation actions;
 - (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, **channels** and means of financing, as indicated in Article 11, paragraph 5, of the Convention, ~~that would assist~~ **availed of by developing countries to contribute to the achievement of the objective for the implementation of the Convention, in particular innovative means of financing, such as for the development of endogenous technologies in developing countries **including support for the development and enhancement of endogenous capacities and technologies of developing country Parties**;**
 - (ii) Examining the role of the financial mechanism **and its appropriateness** in **mobilizing and pathways for scaling up the level of resources by developed country Parties**;



(iii) Assessing enabling environments of all Parties for catalysing investment in, and the transfer of, environmentally-sound technologies and know-how sustainable technologies that mitigate greenhouse gas emissions, and for adaptation to the adverse effects of climate change enhancing resilience to climate change;

(c) to suggest measures for the COP to take in order to guarantee that the financial mechanism is working appropriately when it is not doing so.

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, and on support provided and received, possible needs and gaps and other relevant information as provided for in paragraph 93 (e) of Decision 2/CP.17 and needs for financial, technology and capacity-building support for the preparation and implementation of specific measurable, reportable and verifiable nationally-appropriate mitigation actions, as well as support available and provided, access modalities and related experience gains, as provided for paragraph 19 (b) of Decision 1 /CP.18 including information provided in accordance with paragraph 93 (e) of Decision 2/CP.17 and paragraph 19 (b) of Decision 1/CP.18;

(b) Annual reviews by the COP on the conformity of the activities of the financial mechanism with the guidance of the COP on policies, programme priorities and eligibility criteria, and the accountability of the operating entities of the financial mechanism to 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) Outcomes of the independent reviews and assessments, which the SCF may obtain and provide as expert inputs into the preparation and conduct of the periodic reviews of the financial mechanism by the COP;

(e) The annual report of the Global Environment Facility (GEF) to the COP on its activities as an the operating entity of the financial mechanism, the annual reports of the GEF and other relevant GEF policy and information documents;

(f) Reports from the GEF monitoring and evaluation programme;

(g) The annual report of the Green Climate Fund (GCF) to the COP, on its initial policies and measures as well as on its activities as an the operating entity of the financial mechanism, the annual reports of the GCF and other relevant GCF policy and information documents;

(h) Reports of the GCF's independent evaluation unit (n.b. para. 61 of the GI) and any independent assessment of the overall performance of the Fund, including Board performance to be commissioned by the COP (n.b. paragraph 62 of the GI);

(i) bis The report of the Adaptation Fund Board, including the status of resources of the Fund, trends in the flow of resources and any identifiable causes of these trends (n.b. paragraph 5, Decision 3/CMP.8), and as well as the technical paper prepared by of the secretariat as requested mentioned in paragraph 12 of Decision 3/CMP.8;

(j) Reports from any other operating entities of the financial mechanism that may be designated as such in the future;

(k) Reports from the United Nations Commission on Sustainable Development agencies dealing with climate change financing, and relevant bilateral and multilateral funding institutions and information from institutions outside of the framework of the financial mechanism such as Article 11.5 institutions, including information provided at the first Forum organized by the SCF and the work programme on long-term finance;

(l) 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;~~

- (m) 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, **including a technical paper on an assessment of lessons learned from fast-start finance, FSF, to determine its conformity with paragraph 95 of Decision 1/CP.16;**
- (n) Information contained in the national communications of Parties to the Convention, technology needs assessments and national adaptation programmes of action, **taking into account the agreed methodologies on a common tabular format for UNFCCC biennial reporting guidelines for developed country Parties (n.b. Decision 19/CP.18 and its Annex);**
- (o) Information contained in biennial reports and biennial update reports with respect to financial resources provided and financial needs to implement adaptation and mitigation action;
- (p) Inputs that are generated as a result of the biennial assessment of the financial mechanism that the SCF will conduct;
- (q) Relevant information available on the following:
 - (i) Private-sector financing and investment for climate change activities;
 - (ii) Fast-start finance **including the technical paper to be prepared by the secretariat as requested in paragraph (m) above;**
 - (iii) The initial review of the Adaptation Fund;
 - (iv) The work programme on long-term finance;
 - (v) The **GEF report on the** Special Climate Change Fund;
 - (vi) The **GEF report on the** Least-Developed Country Fund and reports of the LDC Expert Group (LEG).

C. Criteria

3. The effectiveness of the financial mechanism will be assessed taking into account the following:
 - (a) The transparency **and stakeholders' inclusiveness over** ~~of~~ decision-making processes of all funds under the Convention and its Protocol, and in particular the operating entities of the financial mechanism, the GCF and the GEF;
 - (b) The adequacy, predictability, **and accessibility** of financial resources provided to developing country Parties in the long term, providing a solid ground to incentivize and catalyze mitigation and adaptation action on the ground, 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 **including resource allocation strategies, the implementation of the incremental cost financing as well as co-financing,** as they relate to climate change;
 - (d) The amount of resources provided to, **and reported as received by,** developing country Parties, **the channels used for providing these resources, the conditions under which these resources are provided, and the choice of recipients,** including financing for technical assistance and investment projects;
 - (e) The amount of finance leveraged, **including from the private sector,** and the amount of co-financing required by the operating entities of the financial mechanism, **if any,** in all funds under the Convention;
 - (f) The sustainability of ~~funding for climate change-funded projects/programmes~~ funding for climate change **in** developing country Parties from all sources and through all channels;



- (g) The extent to which the financial mechanism is contributing to a global paradigm shift toward a low-carbon and climate resilient development pathway;
 - (h) The extent to which the resources that flow through the financial mechanism were used to identify innovative projects that could be used for dissemination and how lessons learnt from projects were generated and distributed.
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**Annex II: Possible activities and timelines to conduct the fifth review of the financial mechanism**

| | 2013 | 2014 | | | |
|--|---------|---------|---------|---------|---------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec |
| SCF implementation of the work plan for the conduct of the fifth review | x | x | x | x | x |
| Collection and analysis of information and reports to be provided by entities relevant to the Convention (e.g. GEF, GCF, AF) | x | x | | | |
| Collection and analysis of available information from sources other than the operating entities such as multilateral, bilateral and regional channels. | x | x | | | |
| Call for submissions from interested organizations by the SCF | | x | | | |
| Collection and analysis of information on 1 st biennial reports from developed country Parties (to be submitted by 1 January 2014) | | x | | | |
| Analysis of submissions from Parties regarding their views on the fifth review of the FM, should they be invited to submit their views | | | x | | |
| Inter-sessional consideration on the first draft report on the outcomes of the review | | | x | | |
| Periodic update on the status of the work to SBI 40 | | | x | | |
| Preparation and finalize the draft report on the outcomes of the review | | | | x | |
| Periodic update on the status of the work to SBI 41 | | | | | x |
| Consideration by COP 20 on the fifth review | | | | | x |