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Twenty-eighth session

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Agenda item 4

Financial mechanism of the Convention: fourth review of the financial mechanism

Fourth review of the financial mechanism

Draft conclusions proposed by the Chair

1. The Subsidiary Body for Implementation (SBI) took note of the synthesis report on submissions from Parties on the review of the financial mechanism¹ and the submissions from Parties on the review of the financial mechanism referred to in decision 6/CP.13.²
2. The SBI, in its consideration of the fourth review of the financial mechanism on the basis of the guidelines contained in the annex to decision 6/CP.13 and in the annex to decision 3/CP.4, requested the secretariat to provide, upon request, information to Parties not included in Annex I to the Convention on the assessment of financing needs to implement mitigation and adaptation measures.
3. The SBI decided to continue its consideration of issues under this agenda item at its twenty-ninth session (December 2008) on the basis of the draft text contained in the annex to these conclusions and other documents submitted by Parties, with a view to recommending a draft decision for adoption by the Conference of the Parties at its fourteenth session (December 2008).

¹ FCCC/SBI/2008/INF.4.

² FCCC/SBI/2008/MISC.3 and Add.1.

Annex

[ENGLISH ONLY]

**Text for a draft decision for consideration by the Subsidiary Body
for Implementation at its twenty-ninth session**

Draft decision [-/CP.14]

**Financial mechanism of the Convention: fourth review
of the financial mechanism**

[The Conference of the Parties,

Recalling Article 4, paragraphs 3, 4, 5, 8, and 9, taking fully into account Article 11 of the Convention,

Recalling also its decisions 11/CP.1, 12/CP.2, 3/CP.4, and 6/CP.13,

Recalling that, as provided for in the Annex to the MOU with the GEF, the “GEF replenishment negotiations will take into account the COP’s assessment”,

Noting the report prepared by the secretariat, in collaboration with the Global Environment Facility, on the assessment of funding necessary to assist developing countries in fulfilling their commitments relating to the Global Environment Facility replenishment cycle¹, and the report on analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change²

[Noting that the Global Environment Facility as an operating entity operating the financial mechanism of the Convention has a role to play in catalysing and scaling up international [and domestic] financial [and investment] [flows][transfers] for the implementation of the Convention,]

[Noting that private sector financing plays an important role in scaling up funding to meet the needs of developing countries,]

Noting of that the fourth review of financial mechanism may benefit from, and provide, valuable inputs to other processes in the Convention,

[Acknowledging the need to explore innovative means to increase the scale of international financing to climate change to enhance actions in developing countries;]

[Noting the importance of co-financing for GEF projects as a useful approach to support developing countries to cope with adaptation to and mitigation of climate change, taking into account the comparative advantages of GEF agencies,]

¹ FCCC/SBI/2007/21.

² Dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention working paper 8. 2007.

[*Noting also* the recent GEF reform process and that the GEF is continuing to effectively perform its role as an operating entity,]

Welcoming the GEF's role in creating and enhancing enabling environments,

[*Expressing serious concern* over the findings of the papers³ that the financial resources currently available under the financial mechanism of the Convention to developing countries for the implementation of their commitments under the Convention, in particular for adaptation, are [grossly] inadequate,]

[*Underlining* the importance of an effective financial mechanism of the Convention for “enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation under the Bali Action Plan, as contained in decision 1/CP.13, chapeau of paragraph 1 (e),]

I. Assessment of funding to assist developing countries in fulfilling their commitments under the Convention

1. *Decides* that the report on the assessment of funding necessary to assist developing countries in fulfilling their commitments under the Convention shall constitute an input of the Conference of the Parties to the fifth replenishment negotiations of the Global Environment Facility Trust Fund;

2. [*Invites donors* that the fifth replenishment should take into account the results of the mid-term review of the RAF, [and its adverse impacts on the amount of funding made available to developing country Parties, including the challenges that many developing countries, in particular SIDS, LDCs and Africa, are experiencing in accessing GEF funds;]]

3. [*Calls* upon the donors to the GEF to fulfil commitments made during the [4th] replenishment[s] the GEF, as arrears and outstanding contributions will not only impact on negotiations for GEF-5, but also impact on allocations [and transfers] to countries and priorities where financing resources are most needed;]

4. [*Urges* the Council of the Global Environment Facility to [help] ensure that adequate [and predictable] funding is available to enable developing countries to meet their commitments under the Convention, taking into account Article 4, paragraph 7 and Article 11, paragraph 5, of the Convention which provides that developed country Parties may also provide through bilateral, regional and other multilateral channels financial resources relating to the implementation of the Convention by developing country Parties;]

5. [*Requests* the Global Environment Facility to include in its report to the Conference of Parties at its fifteenth session information on how the priorities for funding identified by Parties was taken into account in the negotiations over the fifth replenishment cycle of the Global Environment Facility, as stated in paragraph 2 of the Annex to the MOU.]

³ FCCC/TP/2007/4 and FCCC/SBI/2007/21.

Dialogue working paper 8. 2007. Dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention, fourth workshop. Available at: <http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gef/application/pdf/dialogue_working_paper_8.pdf>.

6. [Invites the donors to the Global Environment Facility secure a successful fifth replenishment of the Global Environment Facility;]

(6bis) [Requests developed country Parties to significantly increase contributions to the fifth replenishment to meet the commitments under Article 4.3 of the Convention and to secure a successful fifth replenishment of the Global Environment Facility;]

7. [Requests][Invites donors to] the GEF Council, during their replenishment discussions:

- a) To give special attention to the Annex to the MOU, (FCCC/CP/1996/9, page 7, adopted in Decision 12/CP.3), [in particular to the provision that “the COP and the GEF Council will jointly determine the aggregate GEF funding requirements for the purpose of the Convention” (*chapeau* of the whole Annex);]
- b) [To address the serious concerns raised by developing countries over the implementation of the resource allocation framework (RAF), [including the lack of transparency in the RAF allocation,] and the procedural concerns affecting access to funds;]
- c) [To establish a programme under the GEF, to provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1 of the Convention, in order to provide financing in an expedited manner;]
- d) [To provide new and additional resources, in accordance with Article 4.3 of the Convention, to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1 of the Convention, outside their RAF allocations and taking into account the impact of the depreciation of the dollar on the allocations of subsequent national communications;]
- e) [To provide information on the nature and objective of the co-financing provided for the GEF-funded projects, to determine whether these co-financing resources constitute loans which add to the debt burden of developing countries, and whether they contribute to the attainment of the objective for which access to GEF resources is requested;]

II. Fourth review of financial mechanism

8. [Decides that the review of the financial mechanism should be comprehensive and oriented to the needs of non-Annex I Parties for funding for mitigation and adaptation activities, as well as technology development and transfer;]

9. [Decides that the financial mechanism should not be weakened by the [fragmentation][atomisation][multiplication] of funds, ensure universal participation, operate under the authority of the Conference of Parties, and ensure consistency with COP decision;]

10. [Decides that given the scope of the challenge of climate change, accessing multiple sources of funding – whether inside the Convention or outside – should be encouraged;]

11. Requests the Global Environment Facility:

- (a) [To provide the required information on the reconsideration of funding decisions, in accordance with this paragraph 5 of the memorandum of understanding MOU between the COP and the GEF Council (annex to Decision 12/CP.2),]

- (b) [To provide information on the action taken for the reconsideration of funding decisions, as laid out in paragraph 5 of the MOU between the COP and the GEF Council; and for this purpose, also requests the GEF to provide the information requested in paragraph 1 (c) of the Annex to the Memorandum of Understanding;]
- (c) [To enhance action on adaptation and mitigation in developing country Parties, on technology development and transfer to support action on mitigation and adaptation, as well as to promote access to affordable environmentally-sound technologies; to improve access of all developing countries, in particular LDCs, SIDS and Africa to GEF resources; and [in particular to encourage implementing/executing agencies' to perform their functions efficiently], in accordance with COP guidance in light of the GEF reform process and the role of a strengthened GEF, as an operating entity of the financial mechanism of the Convention;]
- (d) [To review the overall coherence of, and revise as necessary, its climate change focal area strategy and programmes in light of the findings and recommendations of the fourth overall performance study of the Global Environment Facility, taking into account the state of art science on climate change including:]
 - (i) An assessment of progress against the fourth replenishment of the Global Environment Facility policy recommendations and examining how to further improve the GEF's performance;
 - (ii) [An examination on how the GEF complements other existing financing instruments;]]
