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Agenda item 12(e)
Matters relating to finance
Fifth review of the Financial Mechanism

Fifth review of the Financial Mechanism

Proposal by the President

Draft decision -/CP.20

Fifth review of the Financial Mechanism

The Conference of the Parties,

Recalling decisions 3/CP.4, 2.CP.12, 1/CP.16, 2/CP.16 and 8/CP.19,

Welcoming the progress made by the Board of the Green Climate Fund in operationalizing the Green Climate Fund,

Noting that the fifth review of the Financial Mechanism focused on the Global Environment Facility owing to the fact that the Green Climate Fund is still developing its operations and that therefore it was premature to review many aspects of the Green Climate Fund,

1. *Welcomes with appreciation* the expert input to the fifth review of the Financial Mechanism provided by the Standing Committee on Finance, contained in the technical paper referred to in paragraph 3 below;

2. *Encourages* the Standing Committee on Finance to build on the same methodology and criteria in future reviews of the Financial Mechanism;

3. *Acknowledges* the executive summary of the technical paper on the fifth review, as contained in the annex, including the conclusions and recommendations made by the Standing Committee on Finance;

4. *Encourages* the operating entities of the Financial Mechanism to address, as appropriate, these recommendations in their future work, particularly with regard to the complementarity between the operating entities of the Financial Mechanism;

5. *Recognizes* the general positive assessment of the performance of the Global Environment Facility;

6. *Notes*, however, that the least developed countries and small island developing States still experience challenges in accessing the resources from the Global Environment Facility;

7. *Decides* to consider the timing of guidance provided by the Conference of the Parties to the operating entities of the Financial Mechanism, especially that guidance which has resource implications vis-à-vis the replenishment cycles of the operating entities of the Financial Mechanism, in order to ensure that key guidance is fully considered in the programming strategies and policy recommendations associated with each replenishment period;

8. *Also decides* to initiate the sixth review of the Financial Mechanism at its twenty-second session (November–December 2016), in accordance with the criteria contained in the guidelines annexed to decision 8/CP.19, or as these guidelines may be subsequently amended;

9. *Requests* the Standing Committee on Finance to provide expert input to the sixth review of the Financial Mechanism in 2017 with a view to the review being completed by the Conference of the Parties at its twenty-third session (November–December 2017).

Annex

Executive summary of the technical paper on the fifth review of the Financial Mechanism

I. Background

1. At its 6th meeting, the Standing Committee on Finance requested the secretariat to prepare a technical paper that will inform the Committee in its deliberations on the effectiveness of the Financial Mechanism and in the drafting of its expert inputs, which will be submitted to the Conference of the Parties (COP) at its twentieth session. The technical paper builds on the criteria for the review agreed by Parties at COP 19.[1] These criteria have been grouped in the following clusters of issues: (i) governance; (ii) responsiveness to COP guidance; (iii) mobilization of financial resources; (iv) delivery of financial resources; (v) results and impacts achieved with the resources provided; (vi) consistency of the activities of the Financial Mechanism with the objectives of the Convention; (vii) consistency and complementarity of the Financial Mechanism with the other sources of investment and financial flows.

2. This technical paper is informed by desk research and literature review of the sources of information identified in the updated guidelines,[2] complemented with past decisions related to the Financial Mechanism as well as inputs from the secretariats of the operating entities of the Financial Mechanism. Interviews with the stakeholders of the operating entities of the Financial Mechanism were also undertaken in order to generate further information. Furthermore, the technical paper also benefited from information included in the 2014 biennial assessment and overview of financial flows prepared by the Standing Committee on Finance. As there was a time limitation, it was not possible to expand the research beyond the available literature and conduct surveys on an appropriate sample of recipient countries in order to complement the areas where updated information was not available. Such an approach, however, could be undertaken in preparing for the sixth review of the Financial Mechanism.

3. The Standing Committee on Finance, having considered the technical paper, prepared this executive summary to form its expert input to the fifth review of the Financial Mechanism.

II. Key insights, conclusions and possible recommendations

A. Governance

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

4. An independent assessment by Transparency International evaluated the decision-making process of the Global Environment Facility (GEF) as being fairly transparent and democratic to all its stakeholders. The stakeholders of the GEF include the Parties to the relevant Conventions, the COP, donors, civil society organizations and non-governmental organizations. Decisions of the GEF Assembly and the GEF Council are made by consensus, following consultation with stakeholders who have advance access to background documents, which are prepared for these two decision-making bodies. The

[1] Annex to decision 8/CP.19.
[2] See footnote 1.

meetings of the GEF Council are webcast and all Council documents and decisions are available online.[3]

5. While it was found that there is transparency at the level of the GEF Assembly and the GEF Council, Transparency International indicated that there remains room for improvement with regard to transparency in information disclosure by GEF agencies to GEF stakeholders. Furthermore, the fourth overall performance study of the GEF[4] also highlighted a lack of transparency at the identification phase of GEF projects.

6. Owing to the fact that the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) follow the policies, procedures and governance structure of the GEF, their stakeholders experience similar challenges to the GEF regarding transparency and accountability at the level of project implementation.

7. The governance structure of the Green Climate Fund (GCF) follows a constituency model, with an established board composed of an equal number of members from developed and developing countries. The GCF Board is independent, accountable to the COP and aims to promote transparent decision-making. The Board members are selected by their respective constituency or by a regional group within their constituency. The GCF Board meetings are not webcast but they are recorded, and the recordings are made available online[5] three weeks after the meeting for registered users, while the meeting documents are made publicly available online[6] before each meeting of the Board.

Conclusions

8. Based on the review by Transparency International, there is evidence that the decision-making process at the GEF is transparent. The operations and interactions of the implementing agencies of the GEF with the recipient countries during project implementation could benefit from further transparency of information disclosure on the status of implementation of the projects. This transparency is particularly critical in those recipient countries where project implementation capacity is weak.

9. With respect to the transparency at the project preparation phase, the review found that the national portfolio formulation exercises (NPFEs) promoted by the GEF during the fifth replenishment period of the GEF (GEF 5) has helped to improve the transparency of project preparation. Recipient countries are therefore encouraged to continue to undertake the NPFEs in order to facilitate the identification of projects.

2. Level of stakeholder involvement

10. The GEF has fostered a high level of participation from civil society organizations (CSOs), and the private sector. The GEF Civil Society Organization Network, which comprises all accredited CSOs to the GEF, takes part in the GEF process from upstream policy development to project implementation at both national and local levels. The GEF Council meetings are preceded by a meeting of the GEF Civil Society Organization Network, and in addition, two CSO representatives participate in GEF Council meetings as observers and are invited to make interventions during those meetings. The GEF is currently reviewing the Policy on Public Involvement in GEF projects, in consultation with the GEF Civil Society Organization Network, in order to formulate draft guidelines for public involvement to be presented to GEF Council in October 2014.

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[3] <http://www.thegef.org/gef/council_meetings>.

[4] Available at <http://www.thegef.org/gef/OPS4> .

[5] <http://www.gcfund.org/meetings.html>.

[6] As footnote 5.

11. The Governing Instrument of the GCF mandates the GCF Board to make arrangements, including developing and operating accreditation processes, to allow for effective participation by accredited observers in its meetings and to invite, to participate as active observers, two civil society representatives: one each from developing and developed countries, and two private sector representatives, one each from developing and developed countries.

12. The GCF Board adopted additional rules of procedure for the Board relating to observers and an accreditation process for observers to the Fund was put in place. To date, 183 organizations including CSOs, private sector organizations and international entities have been accredited as observers to GCF Board meetings. Furthermore, all four accredited active observers from civil society and the private sector participate in GCF Board meetings and are invited to make interventions.

Conclusion and recommendation

13. The GEF has been successful in ensuring stakeholder's involvement both at the level of the GEF Council and in project implementation.

14. The GCF could build on the experience of and lessons learned from the GEF in terms of stakeholder's involvement. In this regard, the GCF may consider establishing a robust consultative process with its observers in order to ensure that adequate and timely consultation is undertaken with respect to the development of its policies, procedures, guidelines, and, later on, during the implementation of programmes and projects of the Fund.

3. Gender sensitive approaches

15. The sub-study on gender mainstreaming made in the context of the fifth overall performance study of the GEF found that the GEF secretariat had made significant efforts to implement gender mainstreaming policy, while there was scope for improvement in the application of the policy by GEF agencies. In addition, the policy recommendation of the sixth replenishment period of the GEF on further work on gender mainstreaming emphasized that more concerted efforts need to be made in order to enhance gender mainstreaming within the GEF. Accordingly, the GEF secretariat is currently developing a Gender Action Plan, which will identify ways in which to enhance gender mainstreaming, including the use of relevant gender sensitive indicators and sex-disaggregated data. The Action Plan will be presented to the GEF Council in October 2014.

16. In the light of the provisions of its governing instrument to take a Fund-wide "gender-sensitive approach", the GCF has committed to integrating gender considerations in its procedures and operational modalities. At its seventh meeting, the GCF Board approved an initial results management framework with provisions for sex-disaggregated indicators, including initial criteria for assessing programmes and projects proposals that include gender aspects. The GCF secretariat is currently preparing a draft gender action policy and action plan for consideration by the Board at its meeting in October 2014.

Conclusion and recommendation

17. The GEF has made considerable progress in mainstreaming gender into its activities. Since there is scope for improvement, an action plan is to be approved by the GEF Council in October 2014 and the results of this progress are expected to be reflected in the programmes and projects of the GEF.

18. In developing its own approach to gender mainstreaming, the GCF could build on the experience of the GEF. It is recommended that gender equality be integrated in the structure and organization of the GCF itself, and that gender sensitive criteria are taken into account in funding approvals of the Fund.

4. Environmental and social safeguards

19. The GEF Policy on Agency Minimum Standards on Environment and Social Safeguards applies across all GEF agencies. Moreover, all entities seeking to be accredited must demonstrate not only that their internal policies and procedures comply with minimum standards, but also that the entities themselves have the institutional capacities and systems in place to implement those standards. To date, all existing GEF agencies are in compliance with the environmental and social safeguards of the GEF.

20. The GCF Board has adopted, on an interim basis, the International Financial Corporation's IFC Performance Standards on Environmental and Social Sustainability, with a view to developing its own environmental and social safeguard policy within three years of becoming operational.

Conclusion and recommendation

21. As the GCF is developing its own environment and social safeguards, it should consider consistency with the safeguards of the GEF.

22. Since the GCF will also be using financial intermediaries such as commercial banks, it is recommended that the GCF also develops an appropriate oversight mechanism to ensure that the institutions to which these intermediaries will channel funding, also comply with the environmental policies and social safeguards of the GCF.

5. Fiduciary standards

23. The minimum fiduciary standards of the GEF build on international best practices. GEF agencies are responsible for monitoring and implementing these standards. To date, all existing GEF agencies are in compliance with the minimum fiduciary standards established by the GEF.

24. At its 7th meeting, the GCF Board adopted initial fiduciary principles and standards, which will be reviewed within three years of their adoption. The GCF Board also requested the secretariat to develop, under the guidance of an accreditation panel established by the Board, additional specialized fiduciary standards that may be deemed necessary in order to effectively accommodate all capacities that are required in implementing entities and intermediaries in the initial phase of operations of the Fund.

Recommendation

25. As it monitors the use of its initial fiduciary standards and reviews those standards within the next three years, the GCF should consider maintaining consistency with the standards of the GEF.

B. Responsiveness to Conference of the Parties guidance

1. Level of responsiveness to Conference of the Parties guidance

26. In assessing the responsiveness of the GEF to COP guidance, the fifth overall performance study found that the guidance by the COP is fully reflected in the strategies of the GEF and that requests from the COP are largely taken into account in programming GEF resources. It concludes that the level of responsiveness of the GEF to COP guidance is high both at the strategic and portfolio levels.

27. Some of the Parties and stakeholders of the GEF viewed the GEF to be slow in operationalizing some of the guidance provided by the COP. The fifth overall performance study of the GEF, however, indicated that there are a few issues that made it difficult for the GEF to respond to the guidance received including: (i) the lack of clarity and

prioritization in the guidance; (ii) the repetitive nature of the guidance, which has led to an enormous volume of requests to the GEF; and (iii) the timing of the provision of guidance that falls between replenishments of the GEF.

Conclusion and recommendation

28. The Evaluation Office of the GEF has found that the GEF is highly responsive to COP guidance, and that it has taken considerable steps to report to the COP in this regard. The GEF is encouraged to continue to provide information on how it has responded to the guidance it has received via its report to the COP.

29. As the GCF is under development, it is too early to assess the level of its responsiveness to COP guidance. However, the efforts made by the GCF Board to respond to COP guidance can be acknowledged.

2. Efficiency of the Global Environment Facility project cycle

30. The GEF has been making considerable efforts over the past 10 years to improve the efficiency of its project cycle. Full size projects (FSPs) approved during the first replenishment period of the GEF (GEF 1) took an average of 36 months to progress through the project preparation cycle. This already lengthy preparation time increased to 50 months for projects during the second replenishment period of the GEF (GEF 2), and to 66 months for projects during the third replenishment period of the GEF (GEF 3). However, during GEF 5, the average time for preparation of GEF project cycle dropped to 18.5 months, as the GEF Council established a standard timeframe of 18 months for project preparation.

31. Since 2012, the GEF has undertaken a series of measures that seek to improve the efficiency of its project cycle, including a pilot project for the harmonization of the GEF and World Bank project cycles. The policy recommendation of the sixth replenishment period of the GEF (GEF 6) on improving the efficiency of the GEF project cycle requested the GEF secretariat to continue to review the performance of the GEF against the current timeframe standard of 18 months from GEF Council approval and endorsement by the Chief Executive Officer of the GEF to identify: (i) more effective measures with which to expedite project preparation; and (ii) an appropriate standard project cycle timeframe for the GEF 6.

32. Consequently, the GEF secretariat will prepare, for consideration by the GEF Council at its meeting in October 2014, a set of further measures to improve the policies and procedures associated with the full project cycle, including the programmatic approach and a proposal for a policy on the cancellation of projects that exceed timeframe targets for project preparation as requested by the GEF Council at its November 2013 meeting.

Conclusion

33. It is recognized that the GEF has undertaken measures to improve the length and efficiency of its project cycle over the years. These measures have resulted in significant improvements and the GEF is encouraged to continue undertaking such measures.

C. Mobilization of financial resources

1. Amount of resources provided to developing countries

34. The GEF Trust Fund has been the primary source of grants provided to developing countries though the Financial Mechanism. Funding for climate change mitigation by the GEF has increased steadily from the GEF pilot phase to GEF 5. As at June 2014, the GEF has funded 787 projects on climate change mitigation amounting to more than USD 4.5

billion. Specifically, during GEF 5, about USD 1.2 billion of GEF funding was programmed for direct mitigation projects. Moreover in April 2014, donors pledged USD 4.43 billion to the GEF for GEF 6 (July 2014 to June 2018).

35. With the complete programming of the USD 50 million allocation for the strategic priority on adaptation under the GEF Trust Fund, funding in support of adaptation at the GEF is now delivered directly through the LDCF and the SCCF. As at 30 June 2014, about USD 1.3 billion overall has been programmed by the GEF for adaptation.

36. The LDCF and the SCCF rely on voluntary contributions from developed countries and have experienced increasing trends in contributions. Cumulative pledges to the LDCF went from USD 292 million in October 2010 to about USD 900 million in June 2014 (96 per cent has been disbursed by developed countries), while cumulative pledges to the SCCF went from USD 167 million in October 2010 to about USD 344 million in June 2014 (94 per cent has been disbursed by developed countries).

37. An important milestone was achieved at the 7th meeting of the GCF Board, when it completed the eight essential requirements for the Fund to receive, manage, programme and disburse resources, and thereby decided to commence the process for an initial resource mobilization. Although no numerical figure or target was defined for this initial resource mobilization, it was agreed that it would be commensurate with the ambition of the Fund to promote the paradigm shift towards low-emission and climate resilient development pathways in developing countries.

Conclusion

38. The GEF has mobilized resources via a replenishment process (GEF Trust Fund) and voluntary channels for the LDCF and the SCCF. Additional resources are mobilized by co-financing for GEF funds. Through the aforementioned resources combined, the GEF has raised considerable funds for climate change.

2. Amount of finance leveraged and modalities of co-financing

39. From the estimates of co-financing ratios achieved by the GEF, climate change has attained the highest co-financing ratios. As a result, climate change constitutes about 50 per cent of the total co-financing mobilized by the GEF. However, caution should be exercised when looking at these ratios, as they mask a high variability in these ratios at the project level, and the flexibility accorded by the GEF to least developed countries (LDCs) and small island developing States (SIDS), from which a higher level of co-financing is not necessarily requested during the approval process.

40. National governments have been the main source of co-financing (equivalent to about 41 per cent of GEF 4 and GEF 5 co-financing that has been mobilized), followed by the GEF agencies as the second highest provider of co-financing (about 25 per cent of GEF 4 and GEF 5 total co-financing), the private sector and bilateral, multilateral sources, foundations or NGOs.

41. Two main issues have been raised within the GEF partnership with regards to co-financing. The first is the lack of clarity in the definition and application of co-financing by the GEF. The second is that the process for seeking co-financing can delay the project cycle significantly. At its 46th meeting, in May 2014, the GEF Council approved a “revised co-financing policy”,[7] in response to the policy recommendations of GEF 6 on co-financing and the request made by the COP to the GEF, in order to clarify the concept of co-financing and its application to the review of funding proposals. The new policy clarifies the

[7] Available at <http://www.thegef.org/gef/sites/thegef.org/files/documents/document/Co-financing_Policy.pdf>.

definition of co-financing and approaches to promoting effective co-financing. It also sets a goal for the overall GEF portfolio of reaching a co-financing ratio of at least USD 6 (co-financing) to USD 1 (GEF) with the expectation of greater co-financing in upper middle income countries that are not SIDS. There are no project-specific co-financing requirements.

Conclusion and recommendation

42. In order to expedite the project cycle during GEF 6, the GEF should ensure that its co-financing policy is clearly understood and appropriately applied by accredited GEF project agencies and GEF implementing agencies.

3. Adequacy, predictability and sustainability of funds

43. With a replenishment process taking place every four years, funding to the GEF Trust Fund is provided in a predictable and sustainable manner by developed countries. As no assessment of the financing needs of developing countries has been agreed on at the level of the Convention, it is challenging to assess the adequacy of the financing provided to the GEF. Furthermore, since GEF is only a channel through which financial support is provided to developing countries, an assessment of the adequacy of resources mobilized for developing countries that looks only at the operating entities of the Financial Mechanism will be misleading because of its narrow scope.

44. Through the application of its System for Transparent Allocation of Resources (STAR), the GEF has made the funding for its recipient countries, especially SIDS and LDCs, fairly predictable. The mid-term evaluation undertaken by the GEF Independent Evaluation Office highlighted that STAR has contributed to making GEF operations more relevant to country needs and priorities and has led to greater transparency in GEF operations. As a result, high levels of utilization of STAR allocations were experienced during GEF 5 by all GEF recipients, with an 85 and 80 per cent utilization of overall STAR allocations by SIDS and the LDCs, respectively. Moreover, the GEF 6 policy recommendation on updating STAR stipulates measures to increase the funding allocations for the LDCs.

45. Although the LDCF has seen considerable growth over recent years, additional contributions are needed if the fund is to meet the full costs of addressing the urgent and immediate adaptation needs of the LDCs. For example, as at September 2014, no resources were available for new funding approvals under the LDCF, whereas resources amounting to USD 41.8 million were sought for five full-sized projects that had been technically cleared by the GEF secretariat. For the next GEF cycle (2014–2018), the GEF has estimated the financing needs of the LDCF at USD 700–900 million.

46. Despite a successful record both in terms of positive evaluations and accelerated approval and disbursement rates, the main obstacle to adaptation programming under the SCCF remains the lack of adequate and predictable resources. Given the continued high demand for resources from the SCCF, the GEF has reported that, for example during the fiscal year 2014, the SCCF could meet less than 30 per cent of the demand reported in the priority project documents submitted to the GEF secretariat for technical review and in the relevant work programme entry. The GEF has estimated the financing needs of the SCCF for 2014–2018 at USD 400–500 million.

47. STAR does not apply to LDCF and SCCF funding. However, the LDCF applies a principle of 'equitable access” to ensure that funding is available to all LDCs. This principle includes a ceiling intended to prevent countries with strong institutional capacity in preparing projects from depleting the limited resources of the LDCF, to the disadvantage of other LDCs. In April 2014, the ceiling was increased from USD 20 million to USD 30

million in response to the significant, additional contributions received between June and December 2013.

48. The GCF is expected to eventually have a replenishment process, as the GEF does. The GCF will aim for an equal allocation of finance to mitigation and adaptation projects over time, and for at least 50 per cent of the adaptation finance to be allocated to particularly vulnerable countries, including the LDCs, SIDS and the African States. The Board has also decided to maximize the engagement of the private sector, including through significant allocation to the Private Sector Facility of the Fund.

Conclusion and recommendations

49. The financing for climate change from the GEF Trust Fund increased significantly from GEF 4 to GEF 5. While the allocation to the GEF 6 climate change focal area has slightly decreased compared with GEF 5, there are several climate-relevant components in the new integrated approaches and within the sustainable forest management set-aside. Overall, financing for climate change related interventions has continued to increase from GEF 5 to GEF 6. Moreover, the GEF Trust Fund is considered to be predictable and sustainable. Its adequacy, however, cannot be determined since the GEF is only one of the many financing channels for climate change in developing countries.

50. The review has found that the funds provided to the LDCF and SCCF have substantially increased over the period of the review. The needs, however, have also increased during that period and there remains a backlog of fundable projects. Financing is provided to these funds via voluntary channels and is therefore not considered predictable and sustainable.

51. The GEF and the GCF may consider collaborating in the use of funding pathways that may include the LDCF and the SCCF.

D. Delivery of financial resources

1. Accessibility to funds

52. The GEF delivers financing to recipient countries' governments, to NGOs and to the private sector. This is guided by a country allocation for the different focal areas of the GEF Trust Fund. There is no allocation system for the LDCF and the SCCF. However, the GEF has established a ceiling for the LDCF in order to prevent countries with strong institutional capacity in preparing projects from depleting the limited resources of the LDCF, to the disadvantage of the other LDCs. The GEF has also established a process for direct access to the GEF Trust Fund for enabling activities, but only a few countries have applied such direct access.

53. The allocation parameters and procedures of the GEF and its agencies, as well as the capacity of countries to formulate and develop proposals, affect developing countries' access to the GEF. To further assist countries, the GEF secretariat is working to directly engage countries and increase their awareness and understanding of policies and procedures of the GEF. This is done through national dialogues and other such mechanisms.

54. During GEF 5, all developing countries including LDCs and SIDS were able to programme their STAR allocation. Estimates of the overall utilization of STAR allocations by developing countries show an uptake of 93 per cent for the overall GEF Trust Fund, with 80 and 85 per cent of utilization by LDCs and SIDS, respectively. While some of the barriers to accessing the GEF Fund were solved with STAR, co-financing remains an issue to access, especially for the LDCs and SIDS.

55. The GEF Council in 2010 decided to accredit up to 10 new GEF project agencies, at least half of them based in developing countries, in order to expand the range of agencies with which GEF recipient countries could work. Out of the 10 new project agencies to be accredited, the GEF aims to accredit at least 5 national institutions with a regional balance, at least one national institution from an LDC and at least one national institution from a middle income country. This process has moved slower than expected and the GEF is reviewing its strategy in the light of the findings of the report on the fifth overall performance study of the GEF.

56. The GCF will allow direct access to it by national institutions based in developing countries. The GCF readiness program is intended to foster a better direct engagement between it and its recipient countries. It will provide technical and capacity-building support for implementing entities (particularly national and subnational institutions) that may not meet the standards of the Fund yet.

Conclusion and recommendation

57. The GEF has made a significant effort to inform countries of the programmes and policies of the GEF, and as a result, recipient countries have utilized most of their allocations. Nevertheless, the LDCs and SIDS still face challenges in accessing all of their resources.

58. The GCF would benefit from lessons learned on the accreditation process from other funds, particularly the GEF. In the case of the GEF, the goal of accreditation of 10 project agencies was only partially achieved. The GCF may consider building on existing systems of GEF intermediaries and implementing entities, and may in the process also consider providing financial assistance to support the accreditation of national entities in recipient countries that may need it.

2. Disbursement of funds

59. The speed and efficiency of disbursement appears to be improving at the GEF, despite some challenges. While the number of projects delayed by more than two years is substantially reduced compared with GEF 4 levels, information on the amount of funding that has actually been disbursed by GEF agencies to recipient countries has not been made available in an integrated form owing to a lack of reliability of data, which is due to a lack of standard definitions of when “disbursement” takes place from GEF agencies to recipient countries. Countries have identified slow disbursements as a reason for project delays. The GEF is currently working on harmonizing the timeline for the disbursement of funds and setting performance targets.

60. There has been significant emphasis on disbursement in the LDCF and the SCCF. In the case of the former, the May 2014 annual monitoring report finds that active projects amounted to USD 134.98 million as at 30 June 2013, of which USD 46.49 million had been disbursed, representing an average disbursement rate of 38 per cent. The SCCF had committed USD 94.29 million to 21 projects by 30 June 2013, of which USD 33.22 million or 32 per cent had been disbursed.

Conclusion

61. There is a recognized need to strengthen GEF project monitoring systems in order to be able to provide better information on the level of disbursement of approved funds. The GEF should work with its agencies on establishing a standard definition of “disbursement” in order to generate a common understanding of the term within the GEF partnership and enhance transparency of its processes.

3. Country ownership of programmes and projects

62. Efforts were made to strengthen the country ownership of GEF programmes and projects during GEF 5. In this regard, the mid-term reviews of the experiences with STAR suggest that the clarity that countries now have on the scale and scope of their GEF allocation has contributed to strengthening the ownership of programming at the GEF. Additionally, countries are now also supported to undertake an NPFE to engage across governments and relevant stakeholders on how GEF resources should best be used and prioritized. In the majority of cases, the NPFE provided a helpful framework for interaction between the GEF and stakeholders, but its uptake during GEF 5 was relatively low. Participants to the GEF-6 replenishment process encouraged recipient countries to undertake NPFEs as early as possible so as to facilitate the programming of GEF 6 country allocations.

63. The concept of country ownership has been a driving principle in the design of the GCF. It is also a key element of the GCF investment framework approved in May 2014. Coherence with national policies and strategies and engagement with national stakeholders will be key considerations in fostering country ownership in the actions of the GCF. A transparent no-objection procedure is to be developed to this end. Through early investments in readiness, the GCF secretariat is beginning the process of engagement with countries in order to understand their priorities.

Recommendation

64. There is a recognized need to continue to deepen engagement at different levels of the GEF partnership as a means of fostering ownership of projects and programmes in recipient countries. Upfront support in facilitating national stakeholder engagement on how best to use country allocations has proven to be useful when done through NPFEs. Developing countries should continue to undertake NPFEs in order to facilitate the programming of their GEF 6 STAR allocations.

4. Sustainability of programmes and projects

65. The GEF defines sustainability as the maintenance of the benefits of the project and programs beyond the life of the GEF intervention. In this regard, the review found that 70 per cent of GEF projects have been rated moderately satisfactory or higher in terms of their sustainability. Financial and institutional risks, as well as staff turnover and changes in government priorities have been highlighted as potential impediments to sustainability. Mainstreaming of the activities of the projects has been found to be best practice. However, mainstreaming normally requires time that goes well beyond the life of the project.

Conclusion

66. Policy and legislative changes as well as mainstreaming have been found to promote sustainability, but cannot always be fully implemented within the lifetime of the project.

5. Enabling environments

67. A significant share of GEF 5 programmes have sought to strengthen policy and regulatory environments in order to support low-emission and climate-resilient development. In this regard, a recent evaluation of GEF support for mitigation documented causal links between support and key policy changes in a third of the projects that it reviewed. It emphasized the importance of public sector institutions, strategies and policies for the private sector replication of the approaches piloted. It found that enabling programmes that engaged key non-governmental stakeholders (including the private sector) that could be advocates for policy change were more successful.

68. Country-driven GEF projects that aim to develop and enact key policy changes may improve the enabling environment in recipient countries. However, it should be noted that strengthening policy and regulatory environments may require more time than a single GEF project cycle.

Conclusion

69. There is ample room for the GCF to learn from the experiences of other funds in terms of improving the enabling environments in recipient countries. It can do this by linking investments with focused efforts to engage stakeholders within countries in programming, and by providing technical assistance and capacity-building so as to strengthen enabling environments – institutions, policies, and regulations – that support mitigation and adaptation actions in developing countries.

E. Results and impacts

70. In an effort to assess the impacts of its activities, the GEF has created a results-based management (RBM) framework and monitoring and evaluation (M&E) requirements. The fifth overall performance study, however, has reported that the RBM framework and M&E requirements of the GEF are too onerous to be executed and had recommended that the RBM framework of GEF 6 include a limited number of outcomes that can be measured through existing or easily generated data.

71. As a result, the GEF has made and is continuing to make efforts to streamline its RBM framework in order to improve the measurement of the results and impacts of its activities.

1. Mitigation results

72. The fifth overall performance study of the GEF found that as of 30 June 2013, the GEF had allocated a total of USD 3.3 billion to 615 projects that address climate change mitigation, of which USD 3.1 billion has been allocated to 547 projects with mitigation targets. The total amount of direct and indirect mitigation impact expected from these projects is 2.6 and 8.2 billion tonnes of carbon dioxide equivalent (CO_2 eq) emissions, respectively, or 10.8 billion tonnes CO_2 eq combined.

73. Despite improving the methodologies for the measurement of greenhouse gas (GHG) emission reductions, evaluations by the GEF of mitigation impact stress the difficulties of consistent reporting. The key underpinning parameters are dynamic, and this may result in substantial changes to realized GHG emission reductions. Similarly, assessing the cost-effectiveness of interventions is difficult. The GEF has initiated a work programme in order to improve its methodologies and systems for measuring GHG reductions more consistently.

2. Adaptation results

74. Over the years, the adaptation programme of the GEF (the GEF Trust Fund, the LDCF and the SCCF) has supported focused efforts to help developing countries to adapt to and strengthen their resilience to the impacts of climate change. As at 26 September 2014, a total of 79 LDCF projects provided an estimate of the expected number of direct beneficiaries. These projects, with LDCF resources amounting to USD 386.31 million, seek to reduce the vulnerability of an estimated 8.1 million people directly. Forty-nine LDCF projects support 35 countries in their efforts to integrate climate change adaptation into 112 national development policies, plans and frameworks. The LDCF also assists countries in laying the groundwork for climate-resilient development planning through 51 projects that

will enable 34 countries to strengthen their national hydro-meteorological and climate information services.

75. Under the SCCF, 32 projects provided an estimated number of direct beneficiaries as at 26 September 2014. These projects, to which SCCF resources amounting to USD 135.72 million have been allocated, aim to reduce the vulnerability of an estimated 3.54 million people directly. In addition, 19 SCCF projects are already supporting 34 countries in their efforts to integrate climate change adaptation into 102 national development policies, plans and frameworks.

Recommendation to strengthen adaptation and mitigation results

76. The GEF and the GCF may consider collaborating to harmonize impact indicators and set new norms around reporting practice, especially in the context of adaptation finance. Furthermore, the operationalization of the GCF results-based management framework presents an opportunity to make progress in this regard.

3. Technology transfer

77. During GEF 5, the GEF promoted technology transfer at various stages of the technology development cycle, from demonstration of innovative emerging low-emission and climate-resilient technologies to diffusion of commercially-proven environmentally sound technologies and practices. Moreover, support for technology transfer has also been delivered in the context of the Poznan strategic programme on technology transfer for which a funding window of USD 50 million was created at the GEF with funds from both the GEF Trust Fund and the SCCF. The GEF has also supported the operationalization of the Climate Technology Centre and Network.

4. Capacity-building

78. The GEF has made significant investments in capacity-building, including through cross-cutting capacity-building projects as well as through capacity gained in the design and implementation of projects. Investments of the GEF covered most of the priority areas listed in the framework for capacity-building in developing countries. Furthermore, capacity-building replication and scaling up, and climate change mainstreaming into national development planning are becoming increasingly common practice within the GEF. For example, several GEF small grants projects developed into medium- and full-sized projects.

Conclusion on results and impacts

79. There is evidence that good results and impacts have been achieved with the resources provided by the GEF. Efforts to harmonize and improve the methodologies for measuring the results and impacts of the supported activities need to continue.

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

80. Article 2 of the Convention stipulates that the ultimate objective of this Convention and 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 timeframe 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. Furthermore, in accordance with decision

1/CP.16, paragraph 4, the long-term goal of holding the increase in the global average temperature below 2 °C above pre-industrial levels was recognized.

81. The review found that as an operating entity of the Financial Mechanism, the GEF, through its projects and programmes, contributes to supporting developing countries in meeting the objective of the Convention, while enhancing their resilience to the adverse effects of climate change. In relation to the below 2 °C goal, the Intergovernmental Panel on Climate Change (IPCC) has noted that emission patterns that limit temperature increase from pre-industrial levels to no more than 2° C require considerably different patterns of investment.

Conclusion

82. The GEF programmes and policies are consistent with the objectives of the Convention.

G. Consistency and complementarity of the Financial Mechanism with the other financial flows and sources of investment

83. Decision 11/CP.1, paragraph 2(a), provides that "consistency should be sought and maintained between the activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism and the policies, programme priorities and eligibility criteria for activities as relevant, established by the Conference of the Parties".

84. In terms of activities funded outside the framework of the Financial Mechanism of the Convention, the clean development mechanism (CDM) has been a successful incentive to implement mitigation action in developing countries. By the end of 2013, over 7,400 CDM projects had been registered in 93 developing countries, representing an estimated investment in excess of USD 400 billion and amounting to 1.46 billion certified emission reductions issued (or a reduction of 1.46 billion tonnes of CO_2 eq).

85. Additionally, the Clean Technology Fund (of the Climate Investment Funds (CIFs)), currently the largest multilateral mitigation fund with a cumulative capitalization of USD 5.5 billion, has been providing grants and concessional loans to developing countries.

86. While the Adaptation Fund (AF) has been an important vehicle in providing support for adaptation in developing countries. It was established to finance concrete adaptation projects and programmes in developing countries, and since its inception has allocated USD 232 million of grants to 40 developing countries. The AF has also pioneered direct access with the accreditation of national implementing entities (NIEs) in developing countries which can directly access the Fund without having to go through intermediaries. To date, 17 NIEs have been accredited to the AF.

87. Another channel that has supported adaptation in developing countries is the Pilot Programme for Climate Resilience (PPCR) of the CIFs. The PPCR funds technical assistance and investments in order to support countries' efforts to integrate climate risk and resilience into core development planning and implementation. With a total of pledges amounting to USD 1.3 billion, the PPCR provides incentives for scaled-up action and initiates transformational change by catalysing a shift from 'business as usual' to broad-based strategies for achieving climate resilience at the national level.

88. In terms of ensuring complementarity with the other financial flows and sources of investment, the GEF has reported that it continues to work collaboratively with other organizations on financing complementary activities. For example, synergies have been highlighted between the Clean Technology Fund and the GEF climate change focal area, as

well as between the pilot programme on climate resilience and the LDCF and the SCCF. Furthermore, the GEF and AF have been working collaboratively in order to enhance synergies and avoid duplication of their respective actions in developing countries.

89. With the establishment of the GCF, the risk of overlap among the activities financed within and outside the Convention is high. Although duplication is not desirable, it may not be the most important issue at this time, since, as outlined by the IPCC Fifth Assessment Report, much more significant climate financing is needed than that provided at present through all of these funds combined. Moreover, the funds can collaborate with each other to learn lessons from each other's programmes and to set common performance targets. In this context, the respective funds under the Convention should be actively engaging on their strategic positioning towards the GCF and how they could foster complementarity with the latter.

90. The governing instrument of the GCF provides that the Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions to better mobilize the full range of financial and technical capacities.

Conclusions and recommendations

91. The GEF has developed policies and programmes that have allowed it to be complementary to the community of climate finance providers.

92. The operating entities of the Financial Mechanism and the funds under the Convention should collaborate with the view to taking advantage of the complementarity of their respective policies and programmes. The operating entities of the Financial Mechanism should provide information on the progress made in ensuring the complementarity with the other sources of climate finance in their respective reports to the COP.

93. The Standing Committee on Finance could take into account the information on the efforts of the operating entities to enhance complementarity, when providing draft guidance for consideration by the COP.