



## **Background paper on possible inputs by the Standing Committee on the preparation and conduct of the fifth review of the financial mechanism. Note by the secretariat.**

### **I. Background**

1. The Conference of the Parties (COP), at its 17<sup>th</sup> session, agreed on the functions and activities of the Standing Committee (SC). One of the activities of the SC is to provide expert input, including through independent reviews and assessments, into the preparation and conduct of the periodic reviews of the financial mechanism by the COP.
2. At COP 1, Parties decided that the Subsidiary Body for Implementation (SBI) shall review the financial mechanism and advise on appropriate measures. Furthermore, at COP 4, Parties decided, in accordance with Article 11.4 of the Convention, to review the financial mechanism every four years.<sup>1</sup>
3. At COP 16, Parties requested the Subsidiary Body for Implementation (SBI) to initiate the fifth review of the financial mechanism at its 37<sup>th</sup> session and to report on the outcome to the COP at its 19<sup>th</sup> session.<sup>2</sup>
4. As the SBI is to initiate the review and report on this outcome to COP 19, this background paper provides information for the SC to consider in providing possible input into the preparation of the fifth review of the financial mechanism. Section II of this paper outlines some of the potential issues regarding the modalities for the delivery of expert input from the SC to the COP. It also discusses the modalities for the consideration of this input by the SBI, which is mandated to initiate the review the financial mechanism. Section III highlights possible substantive content that the SC may consider in its formulation of expert input into the preparation of the review.

### **II. Process for previous reviews of the financial mechanism**

5. Up to present, Parties have reviewed the financial mechanism four times, following decision 3/CP.4, paragraph 1, which establishes an interval of four years between each review. In the past, the process for the review of the financial mechanism followed along the following lines:
  - a. Upon the completion of each review, the COP establishes the procedure for the initiation of the ensuing review by mandating the SBI to initiate the process, thereby also establishing the timelines for the next review.
  - b. The SBI initiates the review by discussing the terms of reference (ToR) for the review. In addition to the guidelines for the review of the financial mechanism, as set out in the annex to decision 3/CP.4, the ToR may further define the objectives, methodology and criteria, as well as specific modalities for the review. The fourth review of the financial mechanism included additional guidance by the COP. The ToR are then presented in the form of draft conclusions, which are in turn adopted by the COP in a formal decision.
  - c. The review itself is based on various reports, technical papers, and additional sources of information, including the annual reports of the operating entities, as potentially further identified in the ToR for the review. In some instances, the secretariat was be requested by the SBI/COP to prepare some of the corresponding documents.
  - d. Parties are invited to submit their views on the various sources of information outlined above or on input to the review itself, requesting the secretariat to compile and synthesis this information for consideration by the ensuing SBI session.

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<sup>1</sup> Decision 6/CP.1, annex 1, paragraph B.3(a)(i) and decision 3/CP.4, paragraph 2.

<sup>2</sup> Decision 2/CP.16, paragraph 8.



- e. Based on this, the SBI may request for the secretariat to prepare additional inputs for its consideration, and may also request for the operating entities to provide specific additional information. Parties may also be invited to make submissions on various subjects.
  - f. Taking into account all inputs received from the various sources, the SBI prepares draft conclusions in the form of a draft decision for consideration by the COP.
  - g. The COP, based on the SBI draft conclusions, then concludes the review of the financial mechanism, requesting the SBI to initiate the ensuing review at a specific future session.
6. Examples of sources used in consideration of the fourth review of the financial mechanism include, inter alia:
- a. Inputs by Parties containing their views on the various technical papers and reports, as well as submissions on the operation of funds under the Global Environment Facility as an operating entity of the financial mechanism, as well as the Special Climate Change Fund and the Least Developed Countries Fund.
  - b. Fourth Overall Performance Study of the Global Environment Facility;
  - c. Technical paper on investment and financial flows to address climate change (FCCC/TP/2008/7);
  - d. Report on the assessment of the funding necessary to assist developing countries in meeting their commitments relating to the Global Environment Facility replenishment cycle (FCCC/SBI/2007/21);
  - e. Technical paper on review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries (FCCC/TP/2007/4);
  - f. Report prepared by the secretariat which compiles and synthesizes the information provided by countries participating in the National Economic, Environment and Development Study (NEEDS) for climate change project (FCCC/SBI/2010/INF.7).

### III. Possible inputs by the SC into the fifth review of the financial mechanism

7. Possible inputs by the SC into the fifth review of the financial mechanism may consist of elements relating to both the ToR of the review and the review itself.
8. With regards to the ToR, the SC may consider whether the criteria contained in the guidelines annexed to decisions 3/CP.4 and 6/CP.13 needs to be enhanced and updated. This may be undertaken by considering whether further criteria and objectives might be necessary in order to allow for:
- a. An effective review of the financial mechanism with regards to coherence and coordination in the delivery of climate change financing within the Convention;
  - b. An effective review of the financial mechanism with regards to the mobilization of resources;
  - c. An assessment of how the financial mechanism may be rationalized;
  - d. An effective review of the financial mechanism with regards to the measurement, reporting and verification (MRV) of the support provided to developing country Parties within the Convention.
9. Furthermore, with regards to providing possible inputs into the fifth review, both with respect to the ToR and the review itself, the SC may consider specific work to be undertaken with this objective. This may include:
- a. Determining the scope of the review and the indicators to be used for assessments, as well as determining criteria for the preparation of the ToR (i.e. project cycle, project impacts, etc.);
  - b. Undertaking the preparation of technical papers relevant to the review such as those previously mandated to be prepared by the secretariat in the context of past reviews;
  - c. Preparing a technical paper on the best practices of various climate funds, internal and external to the Convention;



- d. Undertaking an analysis of the financial mechanism to further understand what elements are critical to be included in the ToR of the review;
  - e. Consulting and liaising with other bodies within the Convention, such as, amongst others, the Least Developed Countries Expert Group, the Adaptation Committee, and the Technology Executive Committee, with the aim of understanding what elements of the financial mechanism are crucial for these bodies;
  - f. Consulting with other stakeholders internal and external to the Convention with regards to the financial mechanism. The forum of the SC may be a useful source in this regard;
  - g. Analyzing the report of the work programme on long-term finance undertaken in 2012 and the incorporation of conclusions from this work programme into the review of the financial mechanism.
10. The SC may also consider to undertake independent reviews and assessments, making also use of external expertise, and/or to establish a work group, subcommittee or panel consisting of members, in order to complete the work above and to contribute to possible input into the preparation of the fifth review.