



**CONVENTION ON
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**REPORT OF THE SECRETARIAT ON THE FINANCIAL MECHANISM
UNDER THE CONVENTION**

Introduction

1. The Conference of the Parties requested the Secretariat to present to it, at its second meeting, a report on the financial mechanism, in order that decisions can be adopted by the Conference of the Parties, at its second meeting, on the timetable and nature of the review required in Article 21, paragraph 3, of the Convention.
2. The present report which has been prepared for this purpose includes two sections: section I contains the main activities undertaken by the Secretariat, from January to October 1995, relating to the financial mechanism; section II makes some suggestions on how the Conference of the Parties may be advised on the timetable and nature of the review of the financial mechanism.

**I. ACTIVITIES OF THE SECRETARIAT RELATING TO THE FINANCIAL
MECHANISM OF THE CONVENTION**

3. The Conference of the Parties decided, at its first meeting, that the restructured Global Environment Facility (GEF) shall continue to serve as the institutional structure to operate the financial mechanism under the Convention on an interim basis, in accordance with Article 39 of the Convention. The main activities undertaken by the Secretariat relating to the financial mechanism during the reporting period are as follows:

1.1 Council meetings of the Global Environment Facility

4. The Council, main governing body of the GEF, met in February, May, July and October 1995. At each of these meetings, a representative of the Secretariat was invited to make a presentation. These meetings gave the opportunity to the Secretariat of the Convention on Biological Diversity to communicate to the GEF Council, the decision taken by the Conference of the Parties on the financial resources and mechanism, as well as comment on issues of

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interest for the Convention on Biological Convention. It also drew the attention of the Council to some specific concerns of the Secretariat to the Convention on Biological Diversity such as the dissemination of relevant GEF information on how to facilitate access to GEF funding by developing country Parties and a more flexible application of incremental costs for some biodiversity- related projects.

5. By attending the GEF Council meetings, the Secretariat was able, on the one hand, to highlight the specific characteristics of the Convention on Biological Diversity which will enable the Council to take into account the major concerns of Parties to the Convention. On the other hand, the Secretariat was kept informed of the GEF process and was thus in a better position to cooperate with the GEF Secretariat and its implementing agencies (UNDP, UNEP and the World Bank), for the purpose of the financial mechanism of the Convention. Given the interdependency of environmental issues and the large scope of biological diversity, the Secretariat contributed to, and benefited from the consideration of issues in other areas, especially international waters and land degradation within the context of the four focal areas of the GEF.

6. At its first meeting, the Conference of the Parties "instructed the restructured GEF to take prompt measures to support programmes, projects and activities" under the Convention. In addition to its institutional and framework building such as the adoption of its rules of procedure, the approval of the GEF administrative budget, the determination of the GEF project cycle and the preparation of its operational strategy, the GEF Council adopted, as of July 1995, two work programmes which contain biodiversity-related projects and activities. There are 9 projects in the area of biological diversity, adopted by the Council during the reporting period, amounting to US\$ 65.268 million. US\$ 1,857,500 have been allocated, under Block B of the Project Preparation and Development Facility (PDF), for the preparation of and the development of 7 project proposals in the area of biological diversity. For more detailed information, refer to the GEF Report to the second meeting of the Conference of the Parties (document UNEP/CBD/COP/2/8).

1.2 GEF Operations Committee

7. The Secretariat was invited to attend relevant meetings of the GEF Operations Committee (GEFOP). The main task of the GEFOP is to review project proposals with a view to recommending the resources to be allocated for project preparation and project proposals to be included in the proposed work programme to be reviewed and approved by the GEF Council. The GEFOP met in January, February, March, May, June, August and September 1995, i.e. almost every month through video and/or telephone conferences.

8. The GEFOP is chaired by the Assistant Chief Executive Officer of the GEF. It is composed of the representatives of the three implementing agencies of the GEF and the Chairperson of the Scientific and Technical Advisory Panel (STAP). The representatives of the Secretariats of the Convention on Biological Diversity and the Framework Convention on Climate Change are invited to attend relevant GEFOP meetings, as appropriate.

9. The main role of the Secretariat to the Convention on Biological Diversity is to look into the consistency of project proposals with the objectives of the Convention and the decision



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Conference of the Parties on the financial resources and mechanism, i.e. policy, strategy, programme priorities and eligibility criteria for access to, and utilization of financial resources. Among other programme priorities, are the following essential elements: the country's endorsement or approval, the integration of conservation and sustainable use and capacity building in recipient countries.

1.3 Intersecretariat Cooperation

10. During the reporting period, the Secretariat to the Convention on Biological Diversity has worked closely with the GEF Secretariat. The Executive Secretary and the Chief Executive Officer/Chairman of the GEF have met several times to exchange views on matters of common concern. They have agreed, *inter alia*, on cooperation in the preparation of relevant documents. For instance, the GEF Secretariat has sent relevant draft documents to the Secretariat for comments before officially issuing them. Upon the invitation of the Secretariat to the Convention, the GEF Secretariat has helped in the preparation of some documents for the second meeting of the Conference of the Parties. This cooperation has also been reflected in the preparation of the draft Memorandum of Understanding (MOU) and the setting up of a task force on Enabling Activities in the area of biological diversity:

(a) Preparation of the draft MOU

The Conference of the Parties authorized the Secretariat, at its first meeting, on behalf of the Conference of the Parties, to consult with the GEF on the content of the Memorandum of Understanding which should formally be considered by the Conference of the Parties at its second meeting. Efforts have been undertaken by professional staff from both Secretariats, the Executive Secretary of the Convention and the Chief Executive Officer of the GEF to minimize differences of opinion with regard to the Memorandum, which have emerged from the draft to be submitted to the Conference of the Parties. These joint efforts have culminated in an agreed draft of the MOU. For details, refer to document "Draft Memorandum of Understanding" (document UNEPCBD/COP/2/11).

(b) Task Force on Enabling Activities

In order to ensure programmatic cohesion, mutual support among the implementing agencies of the GEF, and cost-effective assistance to country Parties in undertaking initial activities to implement the Convention, a Task Force on Enabling Activities met, at the recommendation of the GEF Secretariat, chaired by the Executive Secretary of the Convention and with the participation of the GEF Secretariat, the implementing agencies, and some biodiversity-related conventions and NGOs. The Task Force meeting reached initial agreement, *inter alia*, on: (i) the scope of enabling activities, such as country studies (i.e. stock taking or an assessment of existing data), strategies and action plans (specific studies, programmes and projects); (ii) cooperation among the implementing agencies; and (iii) monitoring and evaluation of enabling activities funded by the GEF.

(c) Programme for Measuring Incremental Costs for the Environment

The Programme for Measuring Incremental Costs for the Environment (PRINCE) is a GEF programme of technical studies that analyzes the application of an incremental cost framework to various global environmental issues, including biological diversity. PRINCE's work includes methodology development, case studies, and the dissemination of findings. The Secretariat has been actively participating in the work undertaken by PRINCE.

II OPTIONS ON THE TIMETABLE AND NATURE OF THE REVIEW OF THE EFFECTIVENESS OF THE FINANCIAL MECHANISM

11. Article 21, paragraph 3, of the Convention states: "The Conference of the Parties shall review the effectiveness of the mechanism established under this Article, including the criteria and guidelines referred to in paragraph 2 above, not less than two years after the entry into force of this Convention and thereafter on a regular basis. Based on such review, it shall take appropriate action to improve the effectiveness of the mechanism, if necessary".

12. To facilitate the deliberations and decisions that the Conference of the Parties will take on the timetable and nature of the review of the effectiveness of the financial mechanism, it would be useful for the Conference of the Parties to keep in mind differences which may exist between the review of the effectiveness of the financial mechanism described in paragraph 3 of Article 21 and monitoring and evaluation of the utilization of financial resources mentioned in paragraph 2 of the same Article, though they should complement each other.

13. In the light of the provisions of paragraphs 2 and 3 of Article 21, monitoring and evaluation should focus on the utilization of financial resources which will be undertaken mainly through the consideration of a report submitted by the institutional structure to each ordinary meeting of the Conference of the Parties. The review should, however, concentrate on the effectiveness of the financial mechanism. This implies that the review requires a longer time than monitoring and evaluation and needs to be undertaken in a more comprehensive manner.

14. Section II of the present report will provide, inter alia, options on the content, modalities, and timetable for the first and subsequent reviews.

2.1 Purpose of the review

15. The objective of the review is mainly threefold: to evaluate whether: (i) the financial mechanism under the Convention on Biological Diversity is effective in providing financial resources in assisting developing country Parties implement the Convention; (ii) the relevant requirements of the Convention and the guidance provided by the Conference of the Parties have been applied by the institutional structure in its activities within the financial mechanism of the Convention; and (iii) the impact and outcome of activities funded contribute to the realization of the objectives of the Convention. Thereafter, recommendations can be formulated and appropriate action taken so as to improve the effectiveness of the mechanism where necessary.

2.2 Contents of the review

16. The review of the effectiveness of the financial mechanism may focus on the two main components of the mechanism, viz, (i) the guidance provided by the Conference of the Parties for access to, and utilization of the financial resources and (ii) the implementation of the guidance of the Conference of the Parties by the institutional structure operating the financial mechanism. Unlike monitoring and evaluation of the utilization of financial resources, parameters for reviewing would be mainly based on the outcome and impact of some activities funded through the financial mechanism. :

(i) Guidance provided by the Conference of the Parties

The Conference of the Parties may wish to review the policy, strategy, programme priorities and eligibility criteria in order to revise and improve them in the light of the experience gained from operating the financial mechanism, changed circumstances and improved knowledge in the area of biological diversity. The review could provide a special opportunity for the Conference of the Parties to reconsider, in a comprehensive way, the following elements of its decision, including its future decisions, on the financial mechanism and resources, and revise them where necessary, though this will not prevent the Conference of the Parties from modifying and updating at its regular meetings the following:

- (a) Policy and strategy;
- (b) Programme priorities;
- (c) Eligibility criteria;
- (d) A list of developed country Parties and other Parties which voluntarily assume the obligations of developed country Parties;
- (e) An indicative list of incremental costs; and
- (f) Any other matters, such as the amount of resources needed.

(ii) Operation of the financial mechanism

With regard to the operation of the financial mechanism, the Conference of the Parties will monitor and evaluate, at each regular meeting, the utilization of the financial resources through considering a report presented by the institutional structure operating the financial mechanism. Subsequently, the Conference of the Parties may wish to concentrate on a comprehensive assessment of the performance of the institutional structure for the purposes of the Convention, instead of taking up matters covered under regular monitoring and evaluation. The following basic elements could be considered in the context of a review of the effectiveness of the financial mechanism:

- (a) Profile of the institutional structure operating the financial mechanism of the Convention;

- (b) The operational strategies of the institutional structure in the area of biological diversity;
- (c) Biodiversity projects, including activities pursued under the small grants programme, funded by the institutional structure operating the financial mechanism in the light of the guidance of the Conference of the Parties and national priorities.

2.3 Modalities of the review

17. The review of the effectiveness of the financial mechanism, in particular the operation of the financial mechanism, will require further guidelines and parameters in addition to the Interim Guidelines for monitoring and evaluation of utilization of financial resources by the Restructured GEF (Annex III of the Decision on Financial Resources and Mechanism). For this sake, the Conference of the Parties may wish to establish or agree on a procedure so as to set up guidelines and technical parameters for the review to be approved by the Conference of the Parties. Scientific and technical inputs might be needed from the Subsidiary Body on Scientific, Technical and Technological Advice. On this basis, the following two options could be envisaged by the Conference of the Parties, as initial steps for the review:

(i) A study could be undertaken on the effectiveness of the financial mechanism in accordance with the guidelines and technical parameters, established by the Conference of the Parties and drawing upon other materials and reports submitted by the institutional structure to each meeting of the Conference of the Parties. It can also draw upon reports including other appropriate data prepared by the institutional structure's monitoring and evaluation system. Conclusions and/or recommendations could be formulated after the Conference of the Parties has considered the study prepared for the review of the purpose; or

(ii) The Conference of the Parties may wish to request the institutional structure, when deciding on its monitoring and evaluation system, to consider including indicators that it considers important for the purposes of review of the effectiveness of the financial mechanism. Thereafter, the Conference of the Parties will consider, in the light of its own guidelines and parameters, reports prepared by the institutional structure's monitoring and evaluation system. On this basis, the Conference of the Parties will consider formulating recommendations and/or taking decisions to improve the effectiveness of the financial mechanism, if necessary.

18. If the Conference of the Parties opts for option (i), it may still be useful for the Conference of the Parties to request the institutional structure to include important indicators for the review in its monitoring and evaluation system. This would eventually facilitate the review undertaken by the Conference of the Parties on the effectiveness of the financial mechanism.

2.4 Possible elements to be included in the guidelines and parameters for review

19. The Conference of the Parties should determine guidelines and parameters for reviewing the effectiveness of the financial mechanism. In order to facilitate the work of the Conference of the Parties, some elements have been suggested, which could eventually be

included in the guidelines and parameters for the review. However, the review should be undertaken within the content of the review by the Conference of the Parties. As stated above, scientific and technical advice may be necessary for the determination of guidelines and parameters. The following elements though not exhaustive can be regrouped into the three categories:

- (a) Effectiveness in providing financial resources:
 - access to financial resources by eligible countries;
 - effectiveness of the institutional structure for the preparation and execution of projects;
 - sustainability of funded projects;
 - capacity of the institutional structure to generate additional financial resources;
 - accommodation to specific characteristics of biological diversity.

- (b) Application of the relevant provisions of the Convention and the guidance of the Conference of the Parties:
 - predictability and timely flow of funds;
 - adequacy of funding for the period of each medium work programme, including burden-sharing among the contributing Parties;
 - accountability to the Conference of the Parties;
 - eligibility criteria of countries;
 - application of the programme priorities determined by the Conference of the Parties.

- (c) Impact and outcome of funded activities on:
 - the conservation of biological diversity;
 - the sustainable use of biological diversity components;
 - the fair and equitable sharing of benefits.

2.5 Timetable and other decisions to be taken

20. The Conference of the Parties may wish to determine under this section, the timetable for the first review and the intervals of regular reviews. A review of the effectiveness of the financial mechanism can be more significant only if the institutional structure has had enough time to operate. Bearing this in mind, the Conference of the Parties may consider undertaking the first review at its fourth meeting in 1997. Regular reviews may take place thereafter, every three or four years. This would correspond with the intervals of meetings of the Conference of the Parties, the time span of the medium work programme and also with the intervals of the replenishment of the institutional structure operating the financial mechanism.

21. The Conference of the Parties may also wish to confirm the purpose and contents of the review of the effectiveness of the financial mechanism and possible elements to be included in the guidelines, should it agree with the suggestions described under sub-sections 1, 2 and 4 of section II of this report.

22. As to the modalities of the review, the Conference of the Parties may wish to take a decision, at its second meeting, on the procedure such as the creation of an Ad Hoc working group so as to further develop guidelines for the review. Work should commence after its second meeting, so as to make the guidelines ready for consideration by the Conference of the Parties at its third meeting. Prior to the third meeting of the Conference of the Parties, it might be useful for the SBSTTA to consider the draft guidelines and parameters at its second meeting in 1996. The Conference of the Parties is advised to adapt the budget to include relevant preparatory work in 1996.

23. The Conference of the Parties may also wish to request the institutional structure to include indicators which it considers important for the review, in its monitoring and evaluation system, immediately after it has adopted the guidelines and technical parameters at its third meeting in 1996. On this basis, the Conference of the Parties may wish to choose, under the modalities of the review, either a study to be prepared in 1997, in accordance with the guidelines adopted by the Conference of the Parties at its third meeting; or reports prepared by the monitoring and evaluation system of the institutional structure for the consideration by the Conference of the Parties at its fourth meeting in 1997.

CONCLUSIONS

24. The Secretariat hopes that the present report will facilitate the Conference of the Parties in reviewing the financial resources and, bearing in mind Article 39 of the Convention, to take a decision on which institutional structure shall be designated in accordance with Article 21 of the Convention. Such a decision could eventually facilitate the determination of the timetable and nature of the review of the financial mechanism of the Convention.