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FINANCIAL RESOURCES AND MECHANISM

Report of the Executive Secretary

1. MANDATE AND RELATED DOCUMENTS

1. In paragraph 12 of decision II/6, "Financial Resources and Mechanism", the Conference of the Parties (COP) requested the Executive Secretary to present a report to the COP at its third meeting on the implementation of that decision. For ease of presentation, decision II/6 has been broken down into five main sections each of which is explored in a separate note prepared by the Secretariat.
2. The present note was prepared to respond to the request that the Secretariat present a report on the implementation of decision II/6.
3. The second note, contained in document UNEP/CBD/COP/3/7, responds to the request in paragraph 9 of decision II/6 for the Secretariat to:
 - (a) further explore possibilities to identify additional financial resources to support the objectives of the Convention;
 - (b) monitor the availability of additional financial resources and further identify where and how country Parties might gain access to these resources; and
 - (c) study characteristics specific to biodiversity activities to allow the COP to make suggestions to funding institutions on how to make their activities in the area of biodiversity more supportive of the Convention.

4. The third note, contained in document UNEP/CBD/COP/3/8, responds to paragraphs 2 and 3 of decision II/6, and seeks to help the COP prepare for the first review of the effectiveness of the financial mechanism scheduled for its fourth meeting in 1997 by further developing guidelines for this review on the basis of:

- (a) the basic approach described in document UNEP/CBD/COP/2/9; and
- (b) comments made by participants at its second meeting and/or provided by Parties in writing to the Secretariat not later than the end of February 1996.

5. The fourth note, contained in document UNEP/CBD/COP/3/9, responds to paragraph 4 of decision II/6, and reports on the continued consultations on the draft Memorandum of Understanding Between the Conference of the Parties to the Convention on Biological Diversity and the Council of the Global Environment Facility Regarding the Institutional Structure Operating the Financial Mechanism of the Convention," jointly prepared by the Secretariats of the Convention and the restructured Global Environment Facility.

6. The fifth note, contained in document UNEP/CBD/COP/3/10, responds to the decision of the COP expressed in paragraph 1 of decision II/6 to endeavour to make a decision at its third meeting on which institutional structure is to be designated in accordance with Article 21 of the Convention, and seeks to set out relevant issues related to such a decision.

7. This note is divided into two separate sections. Section 2 describes the main activities undertaken by the Secretariat since the second meeting of the COP in November 1995, relating to the financial mechanism. Section 3 reviews the work of the interim financial mechanism pursuant to paragraphs 5, 6, 7, 8, 10, and 11 of decision II/6 of the COP.

2. ACTIVITIES OF THE SECRETARIAT RELATING TO THE FINANCIAL MECHANISM OF THE CONVENTION

2.1 Council Meetings of the GEF

8. The Council, the principal governing body of the GEF, met in April 1996 and will hold its only other meeting of the year in October. The Secretariat was invited to, and the Executive Secretary attended and addressed, the meeting of the Council in April. At this meeting the Executive Secretary communicated to the GEF Council the decisions taken by the second meeting of the COP on the financial resources and mechanism (decision II/6), as well as specific concerns raised by the COP during its second meeting. The Executive Secretary also expressed his concerns on the adequacy of the GEF work programmes for biodiversity activities, and made comments on other issues of interest for the Convention.

2.2 GEF Operations Committee and Task Force Meetings

9. The Secretariat is invited to, and attends, relevant meetings (usually held by teleconferencing) of the GEF Operations Committee (GEFOP). The main task of the GEFOP is to review project proposals with a view to recommending to the Chief Executive Officer (CEO) project proposals to be included in the proposed work programme to be reviewed and approved by the GEF Council. The GEFOP also recommends for CEO approval proposals for project preparation financing. In the reporting period, the

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GEFOP met almost every month and reviewed forty one project proposals for inclusion in the proposed work programme.

10. The Secretariat is also invited to, and attends, GEF Task Force meetings on biodiversity issues. main purpose of the Task Force meeting is to consider enabling activities proposals designed to assist developing country Parties in undertaking activities aimed at "enabling" them to implement the Convention. Fifteen projects presented to the task force meeting were cleared.

11. The Secretariat reviews each biodiversity project proposal before each GEFOP meeting or task force with a view to considering the conformity of each project with the Policy, Strategy, Programme Priorities and Eligibility Criteria approved by the COP. This is a very useful channel for the Secretariat to advise on the consistency of the GEF activities with the guidance of the COP. For instance, the Executive Secretary requested that the development of the clearing-housing mechanism be included as a component of enabling activities in order to ensure prompt implementation of any decision of the COP concerning GEF assistance for clearing-house activities in developing country Parties'.

12. Under the GEF new procedures to expedite the project preparation and approval process for enabling activities and the proposed procedures for medium-sized projects, the Secretariat is requested to consider and comment in writing on each enabling activities project proposal within 10 working days and each medium-sized project proposal within 15 working days. The Programme Officer has been undertaking new endeavours to meet the increasing requests generated by the GEF.

2.3 Intersecretariat Cooperatio

13. During the reporting period, the Secretariat has worked closely with the GEF Secretariat on all matters concerning the financial mechanism. The Executive Secretary and the Chief Executive Officer/Chairman of the GEF have met several times and talked over the telephone to exchange views on matters of common concern. The Secretariat to the Convention communicated to the GEF in a timely manner all decisions of the COP, and received various documents/information relevant to the Convention sent by the GEF.

14. The Secretariat, with the generous assistance of the German Government, organised an informal meeting of some 20 representatives in Germany from 2 to 4 July, 1996 to identify the principal problems and to strengthen the relationship between the Convention and the GEF. The meeting also provided a useful review of the Memorandum of Understanding (MOU). A further meeting on the MOU was organised by the Convention Secretariat from 31 August to 1 September in Montreal. Between this meeting in Montreal and the Council meeting in October, the two Secretariats will continue to work closely in order to finalise a draft of the MOU to submit to the Council. It is expected that these joint efforts will culminate in an agreed revised draft of the MOU being presented to the COP.

15. The Secretariat of the Convention has actively participated in the initiation, formulation and revision of the relevant GEF Operational Strategy, Criteria and Operational Programmes in order to ensure the full implementation of the decisions made by the COP. At the request of the GEF, the Secretariat has taken steps to inform eligible countries of the availability of financial resources to assist in the implementation of enabling activities.

3. IMPLEMENTATION OF DECISION II/6 BY THE FINANCIAL MECHANISM

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16. In its decision II/6, the COP requested the GEF to prepare a report on its biodiversity-related activities to be submitted to the third meeting of the COP. The report submitted by the GEF Council in response to this request has been made available to the COP in document UNEP/CBD/COP/3/5. The GEF Report provides an analysis of the GEF activities in the area of biological diversity, and demonstrates how the Convention's guidance has been implemented, including the guidance provided in decision II/6.

17. In addition to its Report, the GEF has made available additional reports and policy documents containing information relevant to the implementation of decision II/6, including the GEF Annual Report for 1995 and the Quarterly Operational Report, the GEF Operational Strategy, and a report for consideration by the COP on the GEF's efforts to explore modalities of providing support to developing country Parties for capacity building in relation to the operation of the clearing-house mechanism.

18. As part of its role in implementing decision II/6, the Secretariat had the opportunity to review and comment on an early draft of the GEF Report. These comments were taken into account by the GEF Secretariat in preparing the draft presented to the Council for approval at its eighth meeting, from 8 to 10 October 1996. Due to the proximity in timing of the GEF Council meeting and the third meeting of the COP, the GEF Secretariat has submitted to the Convention Secretariat, for the purposes of the COP, the draft report which it has prepared for review and approval by the Council at its meeting in October, 1996. Should the GEF Council make any revisions to the report, a revision to document UNEP/CBD/COP/3/5 will be issued at the third meeting of the COP.

19. This Note draws upon the draft of the GEF Report before the COP, the GEF Annual Report for 1995, the Quarterly Operational Report, the GEF Operational Strategy and related documents to report on the implementation of decision II/6.

20. In decision II/6, the GEF was requested, *inter alia*:

- (a) to incorporate fully, on an ongoing basis, guidance from the COP into the further development of the Operational Strategy and programmes to ensure that the objectives of the Convention are addressed;
- (b) to facilitate urgent implementation of Article 6 of the Convention by availing to developing country Parties financial resources for projects in a flexible and expeditious manner;
- (c) to implement the relevant provisions of decisions II/3, II/7, II/8 and II/17; and
- (d) to take any additional appropriate steps to expedite the project preparation and approval process with a view to implementing fully the guidance of the COP contained in Annex I to decision I/2 on financial resources and mechanisms.

3.1 Conformity with COP Guidance

21. The COP requested that the GEF provide:
 - (a) detailed information on the conformity of the GEF Operational Strategy and approved work programmes with the guidance of the COP; and
 - (b) a list of projects submitted by eligible country Parties and information on their status.²
22. For each relevant paragraph of decision II/6, the draft GEF Report provides an indication of progress it has made towards implementation of the COP guidance. The draft GEF Report indicates that various aspects of COP guidance are in different stages of implementation.
23. The GEF Operational Strategy for Biological Diversity was adopted by the GEF Council in October 1995 prior to the second meeting of the COP, and it has not been amended since then. The draft GEF Report indicates that it was considered that the new guidance provided by the COP at its second meeting could be addressed fully within the context of the approved GEF Operational Strategy.
24. The Operational Strategy indicates that particular care has been taken to incorporate the Policy, Strategy, Programme Priorities and Eligibility Criteria for Access to and Utilisation of Financial Resources, adopted at the first meeting of the COP.³
25. The GEF anticipates that further guidance from the COP can be incorporated into the design of specific Operational Programs that will guide the GEF long-term funding activities within particular ecosystems.
26. The approach of the GEF Operational Program reflects the COP decision that the ecosystem approach should be the primary framework of action to be taken under the Convention.⁴
27. The GEF Operational Strategy identifies four initial operational programmes:
 - (a) arid and semi-arid ecosystems;
 - (b) coastal, marine and freshwater ecosystems (including wetlands);
 - (c) forest ecosystems; and
 - (d) mountain ecosystems.
28. The choice of these ecosystems is consistent with the COP guidance in decision I/2.
29. The draft GEF Report provides an analysis of the projects approved for work programmes and for project preparation funding in the period under review. The analysis concludes that projects and project preparation has been approved in response to each of the 13 priorities identified by the COP in decision I/2.
30. Much of the guidance from the COP requires efforts by the GEF over the longer term, and progress can only be properly assessed as the projects approved by the GEF are monitored and evaluated in the course of their implementation.

31. While it is relatively straightforward to monitor the GEF progress in responding to some aspects of COP guidance, (e.g., whether activities have been approved that support the conservation and sustainable use of coastal and marine biodiversity), the experience of implementation, and more careful analysis, will be required to assess more subjective aspects of COP guidance (e.g., the extent to which GEF projects have been able to integrate social dimensions, such as poverty, in its projects).

3.2 Facilitating the Implementation of Specific Aspects of the Convention

32. Decision II/6 requests the GEF to implement the relevant provisions of the following decisions:

- (a) II/3 on the clearing-house mechanism ;
- (b) II/7 on consideration of Articles 6 and 8 of the Convention;
- (c) II/8 on preliminary consideration of components of biological diversity particularly under threat and action which could be taken under the Convention; and
- (d) II/17 on form and intervals of national reports by Parties.

3.2.1 Implementation of Article 6

33. Decision II/6, paragraph 5 requests the interim institutional structure to facilitate the urgent implementation of Article 6 of the Convention by making available to developing country Parties financial resources for projects in a flexible and expeditious manner.

34. Section IV.A of the draft GEF Report outlines the steps the GEF has taken to facilitate and expedite the preparation and implementation of biodiversity "enabling activities", as described in the GEF Operational Strategy. These enabling activities are intended to include the development of national strategies, plans or programmes as described in Article 6 of the Convention, and elaborated in subsequent decisions of the COP.

35. Operational Criteria for Enabling Activities for Biodiversity have been developed by the GEF Secretariat, in consultation with the GEF Implementing Agencies and the Convention Secretariat, to expedite the approval and implementation of enabling activity projects that are consistent with the operational criteria. Enabling activity proposals that exceed the scope of the operational criteria may be developed and approved in accordance with the regular procedures of the GEF project cycle.

36. The Operational Criteria includes detailed "activity norms" which describe the set of activities that would be typically included in an enabling activity, and which are intended to guide the GEF and its Implementing Agencies in designing and approving projects.

37. The draft GEF Report indicates that care has been taken to ensure that these activity norms will fund projects that reflect the guidance of the COP in relation to Article 6 and, in particular,

- (a) incorporate the Policy, Strategy, Programme Priorities and Eligibility Criteria for Access to and Utilisation of Financial Resources, adopted at the first meeting of the COP;⁵
- (b) support efforts to "identify priority issues specifically related to those components of biological diversity under threat";

- (c) follow the guidance provided in the document "Guidelines for Preparation of Biodiversity Country Studies" prepared by UNEP, and the document "National Biodiversity Planning: Guidelines Based on Early Country Experiences", prepared by the World Resources Institute, the United Nations Environment Programme and IUCN - the World Conservation Union;⁷ and
 - (d) follow the Form and Intervals of National Reports by Parties including the Suggested Guidelines for National Reporting on the Implementation of Article 6 adopted by the COP.⁸
38. Drawing from this guidance, the GEF has identified four major categories of enabling activities:
- (a) stocktaking and inventory of biodiversity based on national programmes and relying on studies, without new primary research;
 - (b) identification and analysis of options to conserve biodiversity, including cross-sectoral issues, and their linkage to national sustainable development;
 - (c) preparation of a national strategy or programme, and an action plan for its implementation; and
 - (d) preparation of a national report to the Convention in 1997 pursuant to decision II/17 of the COP.⁹
39. The GEF Operational Criteria also sets out cost norms associated with enabling activities. The GEF has estimated that the typical total cost ranges for these activities, applicable for most countries, should be \$200,000 - \$350,000. Project proposals within this range may be considered and approved under the expedited procedures. Project proposals exceeding this range may be developed and approved in accordance with the regular procedures of the GEF project cycle.
40. When reviewing these cost norms, the GEF Council agreed that "the financing amounts for the preparation of enabling activities have been developed on the basis of an average estimate used for planning purposes" but that "the actual level of support will vary from country to country and with the content of the enabling activities".¹⁰
41. The draft GEF Report indicates that in the period covered by the Report, the GEF has provided enabling assistance to 41 countries, including country studies, national plans and other enabling activities components. In addition, during the reporting period, ten proposals for project preparation financing were approved to prepare projects that will provide enabling activities in ten additional eligible countries. The GEF Implementing Agencies expect to submit an additional 40 enabling activity projects proposals during the 1997 fiscal year (July 1, 1996 to June 30, 1997).
42. While significant progress has been made in facilitating and expediting the approval of activities to enable developing countries to prepare their national reports, it is unclear how many of the developing country Parties will be able to submit their first national reports to the Secretariat by 30 June 1997, as was urged by the COP at its second meeting.¹¹

3.2.2 Implementation of Article 8 (*In-situ* conservation)

43. Paragraph 58 and tables 3 and 4 of the draft GEF Report describe the three project proposals and 24 proposals for project preparation financing that were approved by the GEF Council during this reporting period that contain elements addressing *in-situ* conservation.

3.2.3 Implementation of Article 18.3 (Clearing-house mechanism)

44. Decision II/3, paragraph 9, requests the GEF to explore the modalities of providing support through the financial mechanism to developing country Parties for capacity-building in relation to the operation of the clearing-house mechanism and to report to the COP at its third meeting.

45. The draft GEF Report indicates that such a report has been prepared and will be presented for consideration by the COP. Parties may wish to consider this report under item 5 of the provisional agenda when it reviews the Note by the Secretariat on the clearing-house mechanisms contained in document UNEP/CBD/COP/3/4.

3.2.4 Preliminary Consideration Of Components of Biological Diversity Particularly Under Threat

46. Decision II/6, paragraph 11 requests the GEF to implement the relevant provisions of decision II/8 on the preliminary consideration of components of biological diversity particularly under threat, and action which could be taken under the Convention.

47. Paragraphs 59 to 61 of the draft GEF Report indicates steps taken by the GEF during the reporting period that respond to this request. These include:

- (a) support for the preparation of national reports; and
- (b) the approval of two project preparation proposals totalling US \$305,000 that address endangered components of biodiversity.

3.3 Expediting the Project Preparation and Approval Process

48. Decision II/6, paragraph 7 requests the GEF to take additional appropriate steps to expedite the project preparation and approval process.

49. Annex C of the GEF report presents a list of project ideas that were submitted by the developing country Parties during the reporting period and their status. Out of approximately 50 project ideas submitted by Parties to the GEF Implementing Agencies, six ideas from Tunisia, India, Morocco and Argentina were not developed further since they were considered ineligible or not in conformity with the Operational Strategy. Some project ideas submitted in 1995 are still under consideration or development. For instance, a project idea from Mexico, submitted in October 1995, is still awaiting focal point endorsement. Project ideas from Ecuador, Syria, Trinidad and Tobago and Venezuela are still being prepared as project proposals. Enabling activities project requests submitted prior to the expedited procedures appear to be slow in development (e.g. Maldives, Myanmar, Iran).

50. Specific steps taken by the GEF in response to the Parties' request to accelerate the disbursement of GEF funds for project implementation are outlined in the draft GEF Report.

51. Furthermore, the GEF has recently included within its work programme a project designed to build and enhance capacity among a wide range of stakeholders in participating countries to develop high-quality, GEF-eligible projects.

3.4 Arrangements for Reciprocal Representation

52. Decision II/6 also requests the GEF to:

- (a) make arrangements for the reciprocal participation of SBSTTA representatives at the meetings of the GEF Scientific and Technical Advisory Panel (STAP);¹²
- (b) explore the possibility of promoting diverse forms of public involvement and more effective collaboration between all tiers of government and civil society; and
- (c) explore the feasibility of a programme of grants for medium-sized projects.

53. As the draft GEF Report notes, the Council approved terms of reference for the GEF Scientific and Technical Advisory Panel (STAP), and, in doing so, the Council requested that STAP interact in a collaborative and cooperative manner with the scientific and technical bodies of the conventions. The STAP regularly invites the Chair of the SBSTTA to attend, or send a representative to each of its meetings.

54. Likewise, and in accordance with paragraph 8 of decision II/6, the SBSTTA invites a representative from the STAP to attend each of its meetings.

3.5 Public Involvement and Collaboration with All Tiers of Government

55. As the draft GEF Report notes, the GEF Instrument and its Operational Strategy stress the need for public participation in the GEF project cycle. The GEF Council approved the GEF policy on public involvement in GEF projects at its meeting in April 1996.

56. The GEF policy on public involvement contains five broad principles intended to guide the GEF Secretariat and the GEF Implementing Agencies in developing more specific operational guidelines for use in GEF project preparation.¹³ The Council has requested that these guidelines be prepared as expeditiously as possible.

57. The COP may wish to consider requesting that the GEF, when developing more specific operational criteria, take into account the need, specifically to promote collaboration between civil society and all tiers of government, which is not directly addressed in the draft GEF Report and related GEF documents.

3.6 Medium-size Grants

58. Decision II/6, paragraph 10 requests the GEF to explore, in the context of promoting public involvement of GEF activities, the feasibility of a programme of grants for medium-sized projects.

59. As indicated in the draft GEF Report, the Council has requested the GEF Secretariat to prepare for

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the Council consider a proposal on ways to streamline the processing and financing of medium-sized projects.

60. This proposal will be considered by the Council at its meeting in October 1996, and was available in draft form at the time this note was prepared.¹⁴

61. The proposal defines medium-sized projects as those for which GEF financing would not exceed US \$1 million. While ensuring that such projects were consistent with the GEF policies and operational strategy, and are country-driven, the proposal seeks to streamline and simplify all stages of project preparation and implementation process in order to make it "user-friendly" to a wide range of potential executing agencies.

62. The streamlined procedures and the more manageable size of the projects should facilitate public involvement by encouraging local communities, non-governmental organisations, academic institutions and private sector entities to apply for project funding in the role as executing agencies.

3.7 Balance in the GEF Portfolio

63. At the GEF Council meeting in April 1996, concern was raised about the balance in projects in terms of size, geographical balance and distribution among focal areas, in particular with regard to biodiversity.

64. Indeed, a review of the GEF project portfolio indicates that the share of biodiversity projects in the GEF approved work programme has significantly decreased in fiscal year 1996 from fiscal year 1995 and the Pilot Phase, both in terms of the number and the value of the projects.

65. The COP may wish to continue to monitor long term trends in the balance of projects within the biodiversity focal area, and as between the biodiversity portfolio and the project portfolios of other focal areas.

4. POSSIBLE FURTHER GUIDANCE TO THE COP

66. In light of the developments in GEF practice and policy since the second meeting of the COP, the Parties may wish to consider providing, with support from the SBSTTA and the Secretariat, further guidance relevant to biodiversity-related activities and policy initiatives likely to be undertaken in the upcoming year. In particular, the COP may wish to formulate:

- (a) guidance on the follow-up to the GEF paper on the clearing-house mechanism;
- (b) guidance on any refinement or prioritisation of the thirteen priorities identified by the COP in decision I/2;
- (c) development of its decision on eligibility criteria.

NOTE:

1. Decision II/3, paragraph 9, requests the GEF to explore the modalities of providing support through the financial mechanism to developing country Parties for capacity-building in relation to the operation of the clearing-house mechanism and report to the COP at its third meeting. For more information on how this decision has been implemented, see paragraphs 44 and 45 of this report.
2. Decision II/6, paragraph 6.
3. Decision I/2, Annex I.
4. Decision II/8.
- ⁵. Decision I/2, Annex I.
- ⁶. Decision II/8, paragraph 6(i).
- ⁷. Decision II/16, paragraph 13.
- ⁸. Decision II/17 and its Annex.
- ⁹. Operational Criteria for Enabling Activities: Biodiversity, GEF/C.7/Inf.11, paragraph 17.
- ¹⁰. GEF/C.7.
- ¹¹. Decision II/8, paragraphs 11 and 12.
- ¹². Decision II/6, paragraph 8.
- ¹³. GEF/C.7/6.
- ¹⁴. GEF/C.8/5.