



UNITED
NATIONS



Framework Convention
on Climate Change

Distr.
LIMITED

FCCC/SBI/1996/L.4/Rev.1
11 December 1996

Original: ENGLISH

SUBSIDIARY BODY FOR IMPLEMENTATION

Fourth session

Geneva, 10-11 December 1996

Agenda item 3

FINANCIAL MECHANISM

MEMORANDUM OF UNDERSTANDING BETWEEN THE CONFERENCE OF THE PARTIES AND THE GLOBAL ENVIRONMENT FACILITY

Annex to the Memorandum of Understanding: determination of funding necessary and available for the implementation of the Convention

Draft proposal submitted by the Group of 77 and China

Recalling Article 11.1 of the Convention which, in the relevant part, states that the financial mechanism of the Convention shall function under the guidance of and be accountable to the Conference of the Parties, as well as Article 4.7 and 4.8 of the Convention;

Mindful that, in accordance with Article 11.3(d) of the Convention, the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount is to be reviewed, shall be determined in a predictable and identifiable manner;

The aggregate GEF funding requirements for the purpose of the Convention shall be determined in accordance with the following procedures.

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Determination of funds necessary

1. In anticipation of a replenishment of the GEF, the COP will make an assessment of the amount of funds that are necessary to assist developing countries, in accordance with the guidance provided by the COP, in fulfilling their commitments under the Convention over the next GEF replenishment cycle, taking into account:

(a) The amount of funds necessary to meet the agreed full costs to be incurred by developing country Parties in order to prepare their national communications under Article 12.1 of the Convention on the basis of the guidelines for national communications of non-Annex I Parties adopted by the Conference of the Parties at its second session;

(b) Financial resources requested by developing country Parties to meet the agreed full incremental costs of measures covered by Article 4.1 of the Convention;

(c) Financial resources requested by developing country Parties to meet the costs of adaptation to the adverse effects of climate change;

(d) Information communicated to the COP from the GEF on the number of eligible programmes and projects that were submitted to the GEF, the number that were approved for funding, and the number that were turned down owing to lack of resources.

Availability of funding

2. The GEF will intimate to the COP the funds that are likely to be available over the next replenishment period.

3. The GEF replenishment will be based on the COP's assessment.

4. On the occasion of each replenishment, the GEF will, in its regular report to the COP as provided for in paragraphs 6 and 7 of this Memorandum of Understanding, indicate how it has responded during the replenishment cycle to the COP's previous assessment prepared in accordance with paragraph 1 of this annex, inform the COP of the conclusion of replenishment negotiations and indicate the amount of new and additional funding to be contributed to the GEF trust fund in the next replenishment cycle for the purposes of the GEF, including the implementation of the Convention. The GEF shall clearly indicate the rationale by which the amount described as "new and additional" is regarded as such, *vis-à-vis* other sources of Official Development Assistance.

Review by the Conference of the Parties

5. The COP shall review the amount of funding necessary and available for the implementation of the Convention on the occasion of each replenishment of the financial mechanism.
