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**SUBSIDIARY BODY FOR IMPLEMENTATION**

**Twenty-fourth session**

**Bonn, 18–26 May 2006**

**Item 5 (a) of the provisional agenda**

**Financial mechanism (Convention)**

**Third review of the financial mechanism**

**Experiences on the effectiveness of the financial mechanism**

**Submissions from Parties**

1. The Subsidiary Body for Implementation, at its twenty-first session (FCCC/SBI/2004/19, para. 53), solicited information from Parties and intergovernmental organizations on their experiences on the effectiveness of the financial mechanism; this information will be considered in the context of the third review of the financial mechanism and in accordance with the criteria set out in the guidelines annexed to decision 3/CP.4.
2. The secretariat has received four submissions from Parties. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\* in the language in which they were received and without formal editing. Submissions from intergovernmental organizations are contained in document FCCC/SBI/2006/MISC.3.

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\* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

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PAPER NO. 1: BANGLADESH ON BEHALF OF LEAST DEVELOPED COUNTRIES

14 October 2005

Third Review of the Financial Mechanism  
(FCCC/SBI/2004/L.24, 14 December 2004)

Information based on experiences regarding the effectiveness of the financial mechanism  
Submission to the UNFCCC Secretariat  
(Bangladesh on behalf of LDCs)

This submission is in response to the invitation by the SBI to Parties to the Convention to submit information on their experiences regarding the effectiveness of the funding mechanisms, in accordance with the criteria set out in the guidelines annexed to decision 3/CP.4.

Bangladesh hereby expresses its views, based on experience with GEF as an entity that operates the financial mechanism, from the perspective of a recipient country, and also based on information contained in some evaluation reports of GEF, in particular, OPS-3<sup>1</sup>.

Bangladesh recognizes the reality that most of the adaptation has to be addressed by vulnerable countries and communities. Funding should be provided in a manner that enables the communities and countries to take timely and appropriate actions themselves.

Attention should be given to explore more pragmatic rules with respect to funding activities and projects on adaptation to human induced impacts of climate change as well as current "climate variability", if helping the poorest and most vulnerable communities is to be achieved.

The operational guidelines for adaptation funding should be practical and innovative – shifting away from conventional GEF paradigm, culture and working philosophy. This calls for re-orientation of all concerned officers, staff and professionals at GEF toward evolving an enabling environment for adaptation funding.

The GEF Council has very little LDC representation. We consider that adequate representation of LDC would strengthen the GEF Council. This is essential if the voice of the vulnerable Parties is to be heard and responded to.

We hope our submission will give guidance to UNFCCC in taking appropriate measures to make the financial mechanism more accessible, equitable and need driven.

Experience regarding the financial mechanism

- Overall experience with the GEF is mixed. Project processing and approval takes a long period. Also, the allocation, disbursement, release of funds take considerable time. Further, the approved budget for any project remains fixed. For adaptation projects to succeed, project cycle and funding needs to be timely, with the necessary flexibility.

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<sup>1</sup> Third Overall Performance Study of the Global Environment Facility, August 2005.

- The GEF climate change portfolio is in an evolving process, particularly in the areas of adaptation and reducing vulnerability to climate change. This need to be recognized and efforts need to be taken to raise its profile within GEF.
- The GEF-funded projects must be country-driven. Implementing and Executing Agencies will design and implement projects that effectively address the national concerns and priorities. Primary responsibility of country level coordination should remain with host country.
- Once commitments are made to fund projects, disbursement must be timely to avoid cost escalation and loss of “will” and “way” to ensure successful outcomes.
- Implemented projects should be tracked more closely to identify successes and failures, to facilitate decision-making and in taking appropriate response measures
- Effort should be given in developing better methodologies for identifying funding priorities, select projects systematically, emphasizing on local needs and capacity.
- Concrete projects on adaptation to impacts of climate change need to be prioritized. There is a need to develop climate change related policy and strategy that puts adaptation as a top priority.
- Existing capacity of operational focal points need to be enhanced, to improve project processing and better integrate GEF programs into national development policies based on country priorities.
- Additional support to national focal points needs to be provided, including extensive training sessions.
- A better understanding of GEF mandate and operations need to be developed in recipient countries.
- Information flow between recipient countries and GEF need to be improved.
- Access to GEF funding for adaptation to impacts of climate change should be simplified and guided by needs of recipient country.
- Support for preparation of project proposals on climate change should be enhanced through capacity building of national professionals.
- Third Overall Performance Study published in August 2005 reveals that the OPS-2 recommendation that GEF would benefit from a more focused program in climate change does not appear to have been fully achieved during GEF-3.
- Adaptation to impacts of climate change has been recognized as a priority of the Convention, and GEF should therefore accelerate processes and mechanisms to funding of adaptation activities for countries where this is a top priority.
- The GEF should emphasize projects that have local and national benefits, as well as global ones.
- In adaptation to impacts of climate change projects, the concept of incremental costs should not apply as they do not fit the “global benefit” benchmark.

- The calculation of global environmental benefits and/or incremental costs for projects on adaptation to impacts of climate change needs to be explored in context with local and national benefits.
- Adequate representation of LDCs would strengthen the GEF Council. This is essential if the voices of the vulnerable Parties are to be heard and responded to.
- The operational guidelines for adaptation funding should be practical and innovative – shifting away from conventional GEF paradigm, culture and working philosophy. This calls for re-orientation of all concerned officers, staff and professionals at GEF toward evolving an enabling environment for adaptation funding.

PAPER NO. 2: JAPAN

**FINANCIAL MECHANISM OF THE CONVENTION**

Submission by the Government of Japan  
15 October 2005

*Introduction*

The Government of Japan is pleased to submit its views on information on its experiences regarding the effectiveness of the financial mechanism, in accordance with the criteria set out in the guidelines annexed to decision 3/CP.4 as requested by the Subsidiary Body of Implementation (SBI) at its twenty-first session (FCCC/SBI/2004/19, para 53). This paper aims to contribute to the third review of the financial mechanism of the Convention as set out in the decision 5/CP.8.

*Setting the Context*

Japan fully endorses the unique role of the Global Environment Facility (GEF) to meet the agreed incremental costs of measures to achieve agreed global environmental benefits, as well as its co-financing approach to maximize the impact of limited financial resources. Japan is a major contributor to the GEF Trust Fund. It has been active both at the Conference of the Parties (COP) to the Convention and at the GEF Council to keep the integrity of the operation of the GEF Trust Fund. It is in this context that Japan will share its experiences regarding the effectiveness of the financial mechanism of the Convention in the following pages.

**1. Effectiveness of the financial mechanism of the Convention**

***The GEF Trust Fund***

Japan attaches a great importance to the integrity of the Trust Fund. The GEF has been operating the GEF Trust Fund in accordance with the principle of meeting the agreed incremental costs to achieve agreed global environmental benefits. The principle of the agreed incremental costs is central to the operation of the Trust Fund, and it should remain as such.

***Other Voluntary Funds***

There are also other funds established by the past COP decisions, including the Special Climate Change Fund (SCCF) and the Least Developing Country (LDC) Fund. These voluntary funds have been successfully operationalized by the GEF by way of translating the spirit of the decisions into clearly articulated programming papers. These programming papers succeeded in assigning specific roles to these new funds so that they could serve different objectives from the GEF Trust Fund.

***Complementary role to other bilateral and multilateral assistance***

The GEF, operating as a multilateral financial institution, complements bilateral and other multilateral activities conducted by the Annex II Parties to the Convention. Japan has provided ODA and other forms of assistance in the area of global environmental issues over the past years to show its commitment. It has found that the GEF can play a complementary role, for example, by way of implementing a pilot project for a new approach or under a new theme.

**2. Evaluation of the work of the Secretariat of the financial mechanism**

***Fund-raising role***

The GEF Secretariat has been coordinating the donors as well as the project host countries so that the maximum amount of the fund would be raised for the GEF projects. For example, the GEF Secretariat has organized advance consultations among donors and beneficiaries respectively when they have been preparing the programming papers to operationalize voluntary funds.

***Technical advisory role***

The GEF Secretariat has been requested at many meetings of the Parties to provide them with technical advice when the Parties designs and deliberates on their guidance to the GEF on its policies, programme priorities and eligibility criteria.

***Theoretical backstopping role***

When operationalizing the COP guidance to the GEF, the GEF Secretariat prepared programming papers based on its expertise on financial engineering. These papers fully conform to the guidance, and they assisted the GEF Council members to make appropriate decisions.

**3. Views on the criticisms against the financial mechanism and the GEF Secretariat**

***If the GEF Council makes decisions against the COP guidance***

Some Parties have suggested that the GEF Council makes decisions which are not in line with the COP guidance. Japan does not associate itself with these self-contradictory views. Article 11 of the Convention as well as the Memorandum of Understanding between the Convention and the GEF as contained in the decision 12/CP.2 clearly assigns different roles to the COP and the GEF Council. Each body, with its legitimate constituencies of each and every Party to the Convention, has been faithfully serving its expected role, and as a result, the operation of the financial mechanism of the convention has been carried out satisfactorily. If the Convention bodies interfere with the matters which are delegated to the GEF Council and to which Convention bodies have no expertise, it will only hamper the work of the GEF Council.

***If the access to the funding is unreasonably slow beyond the control of the applicant Party***

Some Parties repeatedly criticized the GEF that they could not receive the fund long time after they have first submitted their application. The GEF applies the expedited procedures to many projects whose budget size is under certain thresholds, and those projects beyond the relevant threshold may well undergo a longer procedure. It is, however, a procedure agreed by the GEF Council and it is up to the decision of each applicant Party if they choose an expedited procedure or a normal procedure. When an applicant Party chooses a normal procedure and submits a proposal beyond the threshold of the expedited procedure, it is the duty of the GEF Secretariat to assess such a proposal in accordance with the usual rules set by the GEF Council.

***If transaction costs and administrative costs of the GEF Secretariat are excessive***

The GEF operates its funds with the World Bank as one of its trustees. The Physical proximity of the GEF and the World Bank may well have reduced the cost of obtaining technical advice and management know-how to operationalize the funds. These are hidden advantage of having the GEF as the entity entrusted with the operation of the financial mechanism.

***If the Annex II Parties provide only small contribution to the GEF Trust Fund***

Japan has been fully supporting the unique role of the GEF and has contributed an unprecedented amount of financial resources, namely 1.2 billion US dollars in total to the GEF Trust Fund (from July 1991 to November 2004). Japan continues to fulfill its role in the replenishment process this year.

***If the GEF programming paper poses additional conditionality to the project implementation***

Given that the GEF Trust Fund is a multilateral fund, each donor government must comply with the domestic requirement of financial accountability, and must secure a clear predictability on the deployment of the fund and on the expected outcome. Programming papers intend to satisfy these legitimate and important domestic requirements in the donor countries by setting out the terms of operation and by securing the transparency and accountability of the project itself.

***If the resource allocation framework constricts the objective of the Convention***

When resources are limited, its deployment should be cost-effective to achieve the objective of the Convention. The resource allocation framework should serve to promote cost-effective utilization of existing resources so as to achieve the objective of the Convention in an efficient manner.

***If the LDCs have limited access to the GEF entrusted funds***

The COP had established through its guidance to the GEF, decision 27/CP.7, the LDC Fund to address the special circumstances of LDC Parties, taking into account of the Article 4, paragraph 9 of the Convention. At the same time, the LDCs may well requests capacity development assistance through the capacity building initiative under the GEF. In addition, the COP established the SCCF to finance adaptation activities, to which many requests for assistance have been presented by the LDCs.



PAPER NO. 3: SAUDI ARABIA

**SUBMISSION BY SAUDI ARABIA**

*October 11, 2005*

**FINANCIAL MECHANISM OF THE CONVENTION**

**REFERENCE**

The SBI invited parties to submit to the secretariat, by 15 October 2005, information on their experiences regarding the effectiveness of the financial mechanism, in accordance with the criteria set out in the guidelines annexed to decision 3/CP.4.

**INTRODUCTION**

In accordance with decision 3/CP.4, the Global Environmental Facility (GEF) is the entity entrusted with the operation of the financial mechanism of the convention. Saudi Arabia welcomes the opportunity to submit its views on the effectiveness of the financial mechanism including the GEF and the Special Climate Change Fund. The financial mechanism has been established to support developing countries in implementation of the convention and COP decisions, and in meeting their agreed commitments. In this regard, there are areas to be praised but many areas are still lagging behind.

**CONCERN**

Saudi Arabia is concerned about the absence of funding to support activities related to the reduction of the impact of the implementation of response measures. Decision 7/CP.7 called for increased replenishment of the GEF in order to support developing countries.

The Special Climate Change Fund established as per Decision 7/CP.7 shall support Activities to assist developing country Parties referred to under Article 4, paragraph 8(h), in diversifying their economies, in accordance with decision 5/CP.7; No support has yet been allocated to this purpose.

**VIEWS ON FUNDING**

**Funding for the Preparation of National Communications from Parties Not Included in Annex I of the Convention.**

The GEF has been providing funds for Non-Annex-I parties to prepare their national communications. Many difficulties were raised and highlighted by parties in getting funds from the GEF for this purpose. This operations needs to be streamlined for efficient disbursement of funds in order to allow parties to meet their commitments in preparing and submitting national communications.

In addition, provisions must be taken to provide guidelines for Non-Annex I Parties to provide information, in their national communications and/or other relevant reports, on their specific needs and concerns arising from the impact of the implementation of response measures; (Paragraph 20, Decision 5/CP.7).

Funding Of Activities Listed In Decision 5/CP.7

Decision 5/CP.7 requires that the implementation of activities included for addressing the impacts of response measures be supported through the Global Environment Facility (in accordance with decision 6/CP.7), the special climate change fund (in accordance with decision 7/CP.7), and other bilateral and multilateral sources.

(Paragraph 19, Decision 5/CP.7)

In accordance with Decision 5/CP.7, the following activities and actions should be supported through the GEF, the Special Climate Change Fund, and other bilateral and multilateral sources:

1. Annex I and non-Annex I Parties should cooperate in creating favorable conditions for investment in sectors where such investment can contribute to economic diversification;
2. Annex II Parties should assist developing countries, in particular those most vulnerable to the impact of the implementation of response measures, in meeting their capacity building needs for the implementation of programmes which address these impacts;
3. Parties should consider appropriate technological options in addressing the impact of response measures, consistent with national priorities and indigenous resources;
4. Parties should cooperate in the technological development of non-energy uses of fossil fuels, and requests Annex II Parties to support developing country Parties to this end;
5. Parties should cooperate in the development, diffusion and transfer of less greenhouse gas-emitting advanced fossil-fuel technologies, and/or technologies relating to fossil fuels, that capture and store greenhouse gases, and requests Annex II Parties to facilitate the participation of the least developed countries and other non-Annex I Parties in this effort;
6. Annex II Parties should provide financial and technological support for strengthening the capacity of developing country Parties identified in Article 4, paragraphs 8 and 9, of the Convention for improving efficiency in upstream and downstream activities relating to fossil fuels, taking into consideration the need to improve the environmental efficiency of these activities;
7. Annex II Parties should promote investment in, and to support and cooperate with, developing country Parties in the development, production, distribution and transport of indigenous, less greenhouse gas-emitting energy sources, including natural gas, according to the national circumstances of each of these Parties;
8. Annex II Parties should provide support for research into, and the development and use of, renewable energy, including solar and wind energy, as well as clean fossil fuel technology, in developing country Parties;

Furthermore, the GEF, the Special Climate Change Fund and other bilateral and multilateral organizations, should provide feedback to the COP, on the status of support for the implementation of activities included in paragraphs 22 - 29 of decision 5/CP.7 as listed above. Further action should be taken by the COP to enhance the financial support as necessary.

PAPER NO. 4: UZBEKISTAN

**Information of the Republic of Uzbekistan on the experience collected in regard to the effectiveness of financial mechanism in accordance with a set of criteria defined in the guiding lines listed in the Annex to Resolution 3/CP.4**

Use of GEF financial funds provided Republic of Uzbekistan for the fulfillment its obligations within UN FCCC framework and work out First National Report of the Republic of Uzbekistan on Climate Change "Phase I" and "Phase II". At present the preparation of the Second National Report is underway.

In accordance with the set of criteria defined in the guiding lines presented in the Attachment 3/CP.4, it is necessary to mention the positive experience of cooperation with GEF which being the operational body of financial mechanism has reached a certain progress in facilitating the Convention realization and transparency in the decision making processes.

In regard to adequacy, predictability and timely financing needed for the Convention realization it is necessary to emphasize that during the preparation of the First National Report "Phase 1" the cycle of consideration of the Draft Project in accordance with GEF procedures was delayed for more than one year.

The application of flexibility and facilitated by GEF procedures of the project financing has demonstrated satisfactory effectiveness and allowed to work out "Phase II" of the First National Report in a short time.

Application of the Guide on the procedures speeded up by GEF for the cycle of working out the Second National Reports has revealed a kind of insufficient coordination in the decision making by the conference of Parties (17CP.8) and preparation of the guiding documents on these decisions realization which was delayed almost for one year. By these reasons the Republic of Uzbekistan could start the working out of the Second National Report only four years later after the presentation of the First National Report "Phase II".

Such long interruption in preparation of this document gave the rise to the additional problems related to formation of a new group of experts. The solution of these problems requires certain endeavors on the capacity strengthening.

It is necessary to pay a special attention to the amount of resources provided for the Parties from the developing countries and countries with the economy in transfer. The flexibility of financing in the conditions of the simplified preparation of the Second or Third National Reports is needed.

We contemplate that any country which is going to fulfill more work on the preparation of the National Reports than it was planned in the speeded up procedures, can request the financing exceeding the fixed limited amount. However basing on the experience of our country the consideration of the Draft Second National Report was accompanied with substantial bureaucracy, that is why we were forced to agree with the averaged approach which does not into account the request of the Parties. To our opinion, the allocation of financing should be differentiated depending on the bulk of work fulfilled and the degree of development of economical activity of the state.

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