

Decision 2/CP.12

Review of the financial mechanism

The Conference of the Parties,

Recalling Article 4, paragraph 3, and Article 11, paragraph 4, of the Convention,

Recalling also its decisions 11/CP.2, 12/CP.2, 13/CP.2, 11/CP.3, 12/CP.3, 3/CP.4, 5/CP.8 and 9/CP.10,

Noting the report prepared by the secretariat on the experience of international funds and multilateral financial institutions relevant to the investment needs of developing countries in meeting their commitments under the Convention (FCCC/SBI/2005/INF.7), including on financial flows from private sector sources,

Noting also the synthesis report on the financial mechanism prepared by the secretariat (FCCC/SBI/2006/7), the report of the Global Environment Facility to the Conference of the Parties at its eleventh session (FCCC/SBI/2006/3), and the Third Overall Performance Study of the Global Environment Facility (GEF/C.22/10),

Noting the report on the assessment of funding necessary to assist developing countries in fulfilling their commitments under the Convention, prepared by the secretariat in the context of the memorandum of understanding between the Conference of the Parties and the Council of the Global Environment Facility, including on other sources of funding available, inter alia, through bilateral and other multilateral channels and private capital flows (FCCC/SBI/2004/18, chapter V),

Acknowledging the discussions at the Third Global Environment Facility Assembly, including the high-level political discussions, on the opportunities and challenges of the Global Environment Facility in its role as an operating entity of the financial mechanism of the Convention,

Appreciating the conclusion of the fourth replenishment of the Global Environment Facility,

Noting that mitigation and adaptation are key concerns for all Parties to the Convention,

Acknowledging that the global nature of climate change calls for the widest possible cooperation and participation in an effective and appropriate international response, in accordance with the principles of the Convention,

Also noting that adaptation to climate change and its adverse effects is of a high priority for all countries and that developing countries, especially the least developed countries and small island developing States, are particularly vulnerable,

Noting that the largest share of the climate change resources of the Global Environment Facility has been assigned to long-term mitigation projects,

Noting the report of the Global Environment Facility to the Conference of the Parties at its twelfth session, including the response of the Global Environment Facility to the requests contained in decision 5/CP.11, paragraph 1, on additional guidance to an operating entity of the financial mechanism,

Noting that while the Global Environment Facility has effectively performed its role as an operating entity of the financial mechanism of the Convention as reported in the third overall performance study of the Global Environment Facility, this study has made recommendations for improvements in the operation procedures of the Global Environment Facility,

1. *Requests* the Global Environment Facility:
 - (a) To give due priority to adaptation activities in accordance with the guidance provided by the Conference of the Parties;
 - (b) To strengthen work on awareness-raising on Global Environment Facility programmes and procedures in order to assist developing countries to access Global Environment Facility funds;
 - (c) To explore options for undertaking land use and land-use change projects within the climate change focal area of the Global Environment Facility, in light of past experience;
 - (d) To continue its promotion of energy efficiency projects;
2. *Further requests* the Global Environment Facility to recognize and respond to the challenges faced by small island developing States and least developed countries in accessing Global Environment Facility funding highlighted in the third overall performance study of the Global Environment Facility;¹
3. *Requests* the Global Environment Facility to report to the Conference of the Parties at its thirteenth session on:
 - (a) Its response to the recommendations of the third overall performance study of the Global Environment Facility;
 - (b) How it has taken into consideration the recommendations of the third review of the financial mechanism;
 - (c) Its response to the findings of the report on project cycle management by the Global Environment Facility Evaluation Office;
 - (d) Efforts to engage the private sector in providing resources to address climate change;
 - (e) Steps taken to strengthen work on awareness-raising on Global Environment Facility programmes and procedures in order to assist developing countries to access Global Environment Facility funds;
 - (f) How it has recognized and responded to the challenges faced by least developed countries and small island developing States, as referred to in paragraph 2 above;
 - (g) Steps taken to assist developing countries to formulate project proposals;
4. *Invites* the Global Environment Facility, in light of the third overall performance study of the Global Environment Facility, to review the overall strategic coherence of, and revise, as necessary, its climate change focal area operational programmes in the light of findings and recommendations of the third overall performance study of the Global Environment Facility;

¹ Global Environment Facility and ICF Consulting, 2005. OPS3: Progressing Toward Environmental Results. Third overall performance study of the Global Environment Facility. Office of Monitoring Evaluation of the Global Environment Facility, Washington. In particular, its section 5.3.
<http://www.gefweb.org/MonitoringandEvaluation/MEPublications/MEPOPS/documents/Publications-OPS3_complete_report.pdf>.

5. *Requests* the Subsidiary Body for Implementation to initiate the fourth review of the financial mechanism at its twenty-seventh session in accordance with the criteria contained in the guidelines annexed to decision 3/CP.4, or as they may be subsequently amended, and to take appropriate measures and report on the outcome to the Conference of the Parties no later than at its sixteenth session;

6. *Decides* that the fourth review of the financial mechanism should assess and review:

- (a) The Global Environment Facility funding for mitigation;
- (b) The Global Environment Facility response to the adaptation needs of developing countries in accordance with guidance by the Conference of the Parties;

7. *Invites* Parties that are donors to the fourth replenishment of the Global Environment Facility to provide timely contributions to help ensure adequate and predictable resources necessary to advance the implementation of the Convention;

8. *Requests* the secretariat, in order to start the fourth review process in 2007, to prepare for consideration and appropriate action by the Subsidiary Body for Implementation at its twenty-seventh session:

- (a) A technical paper reviewing the experience of international funds and multilateral financial institutions and other sources of funding that is relevant to address current and future investment and financial needs of developing countries for the purposes of meeting their commitments under the Convention;
- (b) A report, in collaboration with the Global Environment Facility Secretariat, on the assessment of the funding necessary to assist developing countries, in accordance with the guidance provided by the Conference of the Parties, in meeting their commitments under the Convention over the next Global Environment Facility replenishment cycle, taking into account paragraph 1 (a)–(d) of the Annex to the memorandum of understanding between the Conference of the Parties and the Global Environment Facility Council (decision 12/CP.3).

*7th plenary meeting
17 November 2006*