



**Stockholm Convention
on Persistent Organic
Pollutants**

Original: English

**Conference of the Parties of the Stockholm
Convention on Persistent Organic Pollutants**

Fourth meeting

Geneva, 4–8 May 2009

Item 5 (h) of the provisional agenda*

**Matters for consideration or action by the Conference of the Parties:
financial resources**

Second review of the financial mechanism**

Note by the Secretariat

1. Paragraph 6 of Article 13 of the Stockholm Convention on Persistent Organic Pollutants establishes a financial mechanism for the provision of adequate and sustainable financial resources to developing country Parties and Parties with economies in transition on a grant or concessional basis to assist in their implementation of the Convention. The mechanism is to function under the authority, as appropriate, and guidance of, and be accountable to the Conference of the Parties for the purposes of the Convention.

2. Paragraph 8 of Article 13 reads as follows:

The Conference of the Parties shall review, not later than its second meeting and thereafter on a regular basis, review the effectiveness of the mechanism established under this Article, its ability to address the changing needs of the developing country Parties and Parties with economies in transition, the criteria and guidance referred to in paragraph 7 [of Article 13], the level of funding as well as the effectiveness of the performance of the institutional entities entrusted to operate the financial mechanism. It shall, based on such review, take appropriate action, if necessary, to improve the effectiveness of the mechanism, including by means of recommendations and guidance on measures to ensure adequate and sustainable funding to meet the needs of the Parties.

* UNEP/POPS/COP.4/1.

** Mandate for the action described in the present note contained in: Stockholm Convention, Articles 13 and 14; reports of the Conference of the Parties of the Stockholm Convention on Persistent Organic Pollutants on the work of its first meeting (UNEP/POPS/COP.1/31), annex I, decision SC-1/10; its second meeting (UNEP/POPS/COP.2/30), annex I, decision SC-2/10; and of its third meeting (UNEP/POPS/COP.3/30), annex I, decision SC-3/17; Final Act of the Conference of Plenipotentiaries on the Stockholm Convention on Persistent Organic Pollutants (UNEP/POPS/CONF/4), appendix I, resolution 2.

3. In its decision SC-2/10, the Conference of the Parties welcomed the report on the first review of the financial mechanism set out in document UNEP/POPS/COP.2/INF/9, requested the Secretariat to prepare draft terms of reference for the second review of the financial mechanism for consideration by the Conference of the Parties at its third meeting and decided that the second review of the financial mechanism would be undertaken in time to send recommendations and guidance to the Council of the Global Environment Facility and to invite it to take into account such recommendations and guidance during the Global Environment Facility's fifth replenishment.
4. In its decision SC-3/17, the Conference of the Parties adopted the terms of reference for the second review of the financial mechanism that are set out in annex I to the present note for ease of reference.
5. Paragraph 8 (b) of the terms of reference states that the Secretariat shall hire an independent evaluator to prepare a draft report on the review of the financial mechanism. Accordingly, the Secretariat hired Dalberg Development Advisors for this purpose.
6. In accordance with the terms of reference, the independent evaluator prepared a draft report on the second review of the financial mechanism, which is set out in document UNEP/POPS/COP.4/INF/17. An executive summary of the draft report is set out in annex II to the present note.
7. As Article 14 of the Stockholm Convention states that the Global Environment Facility shall, on an interim basis, be the principal entity entrusted with the operations of the financial mechanism referred to in Article 13 and to date no other entities have been entrusted with operations of the mechanism, the draft report focuses primarily on the Global Environment Facility.
8. Pursuant to paragraph 2 of the terms of reference, the draft report covers the activities of the financial mechanism for the period July 2005–October 2008.
9. Paragraph 7 of the terms of reference requested intergovernmental organizations, non-governmental organizations and others to submit to the Secretariat the information relevant to achieving the objectives of the review, as soon as possible, but not later than 30 September 2008.
10. In response to the invitation and request mentioned in the above paragraph, the Secretariat received submissions from the following: Bahrain, Myanmar, Slovakia and the International Network for POPs Elimination. The submissions have been reproduced in document UNEP/POPS/COP.4/INF/18.

Possible action by the Conference of the Parties

11. The Conference of the Parties may wish:
 - (a) To welcome the report on the second review of the financial mechanism;
 - (b) To request the Secretariat to transmit the report to the Council of the Global Environment Facility for its meeting to be held in May 2009;
 - (c) To invite the Council of the Global Environment Facility to submit the report to the Global Environment Facility at its fourth Assembly, to be held in 2010, for its consideration and action as appropriate;
 - (d) To request the Secretariat to prepare, on the basis of the terms of reference for the second review annexed to decision SC-3/17, draft terms of reference for the third review of the financial mechanism for consideration and possible adoption by the Conference of the Parties at its fifth meeting;
 - (e) To consider undertaking the third review of the financial mechanism at the sixth meeting of the Conference of the Parties, scheduled to take place in 2013, in time to submit recommendations to be taken into account during the Global Environment Facility's sixth replenishment, in 2013, and subsequently by its fifth Assembly, in 2014.

Annex I

Annex to decision SC-3/17

Terms of reference for the second review of the financial mechanism

Objective

1. Pursuant to paragraph 8 of Article 13 of the Convention, the Conference of the Parties will review the effectiveness of the financial mechanism established under Article 13 of the Stockholm Convention in supporting implementation of the Convention, with a view to taking appropriate action, if necessary, to improve the effectiveness of the financial mechanism, including by means of recommendations and guidance to ensure adequate and sustainable funding. For that purpose, the review will include an analysis of:

- (a) The mechanism's ability to address the changing needs of developing country Parties and Parties with economies in transition;
- (b) The criteria and the guidance referred to in paragraph 7 of Article 13 of the Convention, including the mechanism's ability to incorporate policy guidance from the Conference of the Parties;
- (c) The level and timeliness of funding;
- (d) The effectiveness of the performance of the Global Environment Facility in its capacity as the principal entity entrusted on an interim basis with the operations of the financial mechanism.

Methodology

2. The review will cover all activities of the financial mechanism for the period from July 2005 to October 2008. The review may also consider relevant activities that have been undertaken before that time period.

3. The review shall analyse how the Global Environment Facility has performed according to the objective in paragraph 1 above, using the performance criteria set out in paragraph 11 of the present terms of reference.

4. The review shall draw on, among others, the following sources of information:

- (a) Information provided by the Parties on their experiences gained in undertaking activities funded by the financial mechanism, which may include their assessment of the mechanism using the performance criteria set out in paragraph 11 below;
- (b) Reports submitted to the Conference of the Parties by the Global Environment Facility;
- (c) Other reports provided by the Global Environmental Facility including, among others, the reports of its Evaluation Office and its overall performance studies;
- (d) Reports and information provided by other relevant entities providing multilateral, regional and bilateral financial and technical assistance pursuant to paragraph 6 of Article 13 of the Convention;
- (e) Reports submitted by Parties pursuant to Article 15 of the Convention;
- (f) Relevant information provided by intergovernmental organizations, non-governmental organizations and other relevant stakeholders.

5. The Global Environment Facility is requested to provide relevant information for this review to the Secretariat in a timely manner.

6. Parties are encouraged to submit to the Secretariat the relevant information pursuant to paragraph 4 (a) above as soon as possible but not later than 30 September 2008.

7. Intergovernmental organizations, non-governmental organizations and other relevant stakeholders are requested to provide to the Secretariat information relevant to achieving the objectives of the present review, as soon as possible but no later than 30 September 2008.

8. In keeping with these terms of reference, the Secretariat shall:
 - (a) Make adequate arrangements to ensure that the effectiveness review is undertaken in an independent and transparent manner;
 - (b) Hire an independent evaluator to prepare a draft report on the review of the financial mechanism;
 - (c) Submit the draft report on the review of the financial mechanism to the Conference of the Parties for consideration at its fourth meeting.

Report

9. The report of the review shall include, among other things, the following elements:
 - (a) An overview of elements (a) to (d) of paragraph 1 above;
 - (b) An analysis of lessons learned from the activities funded by the financial mechanism during the period covered by the review;
 - (c) An assessment of the Global Environment Facility principles of incremental cost and global environmental benefits as they pertain to activities relating to persistent organic pollutants in order to facilitate fulfilment of obligations under the Convention, along with lessons learned from the evaluation reports on the activities of the Global Environment Facility;
 - (d) An assessment of the timeliness, accessibility, adequacy, sustainability and predictability of the funding;
 - (e) Recommendations and guidance to improve the effectiveness of the financial mechanism in meeting the objectives of the Convention;
 - (f) An assessment against the performance criteria listed in paragraph 11 below.

10. The Secretariat shall submit the report to the Conference of the Parties for consideration at its fourth meeting. The report shall be deemed an official document of the Conference of the Parties.

Performance criteria

11. The effectiveness of the financial mechanism shall be assessed taking into account, among other things:
 - (a) The responsiveness of the Global Environment Facility to guidance from the Conference of the Parties;
 - (b) The responsiveness of the Global Environment Facility, in its capacity on an interim basis as the principal entity entrusted with the operation of the financial mechanism, to the resolutions adopted on 22 May 2001 by the Conference of Plenipotentiaries on the Stockholm Convention relating to interim financial arrangements;¹
 - (c) The transparency and timeliness of the project approval process;
 - (d) The simplicity, flexibility and expeditiousness of the procedures for accessing funds;
 - (e) The adequacy and sustainability of the resources;
 - (f) Country ownership of activities funded by the financial mechanism;
 - (g) The level of stakeholder involvement.

¹ Final Act of the Conference of Plenipotentiaries on the Stockholm Convention on Persistent Organic Pollutants (UNEP/POPS/CONF/4), appendix I.

Annex II

Second review of the financial mechanism of the Stockholm Convention

Executive summary²

The Stockholm Convention on Persistent Organic Pollutants (POPs) was adopted in 22 May 2001 by the Conference of Parties, and Article 14 of the convention entrusted the Global Environment Facility (GEF) with the operations of the financing mechanism on an interim basis.

The effectiveness of the GEF as the financial mechanism for the Stockholm Convention was evaluated by an independent evaluator in 2006. This is the second independent evaluation and it covers the period July 2005-October 2008. The Stockholm Convention aims to conduct regular evaluations of the effectiveness of the GEF as a financing mechanism. The results should be used to further strengthen the dialogue between the Stockholm Convention and the GEF and to improve overall performance. With this evaluation, the Stockholm Convention Secretariat follows up on its note to the first evaluation: “To consider undertaking the second review of the financial mechanism at the fourth meeting of the Conference of the Parties, scheduled to take place in 2009, in time to submit recommendations to be taken into account during the Global Environment Facility’s fifth replenishment, in 2009 and subsequently by its fourth Assembly in 2010.”³

Most stakeholders consider the GEF to have performed reasonably well and delivered on its basic objective, which is *to address global environmental issues while supporting national sustainable development initiatives*. It is acknowledged that the GEF has continually aspired to improve performance, particularly with the reform initiatives implemented during 2007 and 2008, some of which are too early to evaluate the impact.

The framework used for the evaluation organizes the elements in the Terms of Reference in three main categories: (1) GEF policy, (2) Project Approval Process, and (3) stakeholder relations. Each category includes a set of key performance drivers that were used to assess performance. See the details in the figure below.

² The review has been reproduced without formal editing.

³ “First review of the financial mechanism; Note by the Secretariat”, 6 April, 2006

Main category	Performance drivers
GEF Policy	<ol style="list-style-type: none"> 1. Impact from GEF's policies around incremental cost and global environmental benefits 2. Responsiveness to guidance from COP 3. Responsiveness – ability to address the changing needs of the developing countries and countries with economies in transition 4. Additional - Opportunities and impact of the Resource Allocation Framework 5. Additional - Transparency, levels, and importance of co-financing 6. Additional – Efficiency and impact of national vs. regional projects 7. Additional - Efficiency and impact of cross-sectional priorities
Project Approval Process	<ol style="list-style-type: none"> 8. Transparency, simplicity, flexibility and expeditiousness of the Project Approval Process 9. Simplicity, flexibility, predictability, expeditiousness and timeliness of the procedures for accessing funds 10. Adequacy and sustainability of the resources 11. Responsiveness - ability to address the changing needs of developing countries and countries with economies in transition
Stakeholder relations	<ol style="list-style-type: none"> 12. Country ownership of activities funded by the financial mechanism 13. The level of stakeholder involvement: GEF Secretariat, GEF agencies, GEF Council and Conference of the Parties

The findings of the review are summarized below and each of these findings can be found in section 3 of the document with more detailed description and analyses:

(1) GEF policy

Impact from GEF's policies around incremental cost and global environmental benefits.

1. There is confusion surrounding the concept of incremental costs.
2. The operational guidelines to conducting incremental cost assessments are well explained by the GEF.
3. Project Identification Forms (PIFs) do not include detailed incremental reasoning and therefore should not constitute a prohibitive workload

Responsiveness to guidance from the COP

4. The guidance issued to the GEF by the COP is substantive, but lacks specificity and clear prioritization.
5. The overall responsiveness by the GEF to the guidance has been reviewed as satisfactory.
6. There is a lack of clear guidance from the COP to the GEF secretariat on strategic direction and priorities for POPs and the Stockholm Convention.

Responsiveness – ability to address the changing needs of developing countries and countries with economies in transition

7. It is too early to review the responsiveness to the changing needs of developing countries as only a few projects have been implemented.

Opportunities and potential impact of the Resource Allocation Framework

8. The RAF illustrates a difference in approach between the GEF Council and the Conference of Parties to the Stockholm Convention.
9. It is unclear whether introducing the RAF in the POPs focal area will substantially change the allocation of funds across countries.

10. Local ownership is a combination of public, NGO, and private sector involvement. The RAF increases the role of the country's GEF operational focal point (public) but, at the same time, reduces the role of NGOs and the private sector. The overall effect on local ownership is uncertain.
11. Introducing the RAF in the area of POPs involves challenges with definition of appropriate indicators.
12. For smaller countries, a 'national distribution across sectors/new RAF' might involve the risk of reduced allocations to the POPs focal area.

Transparency, levels and importance of co-financing

13. Co-financing levels are uncorrelated with country income and project type, although positively correlated with project size.
14. There is a no common practice on applying the co-financing requirements.
15. Co-financing is not a priority criterion for the GEF secretariat.

Efficiency and impact of regional vs. national projects

16. Regional projects are considered to have limited impact.

Efficiency and impact of cross-sectional priorities

17. The implementation of cross-sectoral priorities has so far not been successful.

(2) Project Approval Process

Transparency, simplicity, flexibility and expeditiousness of the project approval process

18. It is too early to evaluate the improvements in efficiency of the new project cycle, but initial assessment indicates somewhat reduced timeline for approval cycle.
19. Stakeholders report that frequent and arbitrary or unexplained changes in rules and procedures are a cause confusion and frustration for countries and GEF agencies alike.
20. The application and project approval processes are perceived as difficult and cumbersome.
21. Parties feel they meet entry point barriers in the GEF agencies because of a lack of visibility in the project application procedures.
22. Very little monitoring is done by the GEF Secretariat during project implementation.
23. The GEF Secretariat has suffered from poor management systems.
24. There are limited incentives for or repercussions for not following project timeline and cycle.
25. The PAP incentive structure means that project approvals de facto reach a 'point of no return' after CEO approval of the PIF.

Simplicity, flexibility, predictability, expeditiousness and timeliness of the procedures for accessing funds

26. There is substantial time lag from the appropriate funding levels have been agreed upon to the actual distribution of funds.

Adequacy and sustainability of the funds

27. There is a gap in current funding provided to the POPs through the GEF and the needed funding to fulfil the obligations under the Stockholm Convention.
28. Funding is provided by the Parties for projects implemented outside of the GEF, but there is no overview of the size of funds and number and type of projects implemented.

29. As no information was provided by the Parties to the Stockholm Convention as requested in the RFP⁴ on non-GEF funding, no further analysis could be performed on alternative funding sources and channels.

Responsiveness – ability to address the changing needs of developing countries and countries with economies in transition

30. The stakeholders consider the project proposal development and implementation phases to be sufficiently flexible to respond to changing needs.

(3) Stakeholder involvement

Country ownership of activities funded by the financial mechanism

31. Direct communication by the GEF with governments is seen to have helped improve country ownership.
32. With the intended broader participation of more small and low income countries in the GEF, the level of country ownership and sustainability will probably be reduced.
33. Co-financing by governments is one element that helps ensure country ownership.

The level of stakeholder involvement - The GEF Secretariat

34. The GEF Secretariat has increased its role during the last two years through direct contact with countries and by taking on a bigger role in decision making.
35. The GEF Secretariat has ambitions to increase its visibility and influence through stronger focus on, among other things, outreach, resource mobilization and Public Private Partnerships.
36. The GEF Secretariat lacks sufficient oversight over progress in project preparation and implementation.

The level of stakeholder involvement - The GEF agencies

37. There is strong competition between agencies and limited collaboration and sharing of information and current efforts to improve this have not been particularly successful.
38. The effects of a potential move to full competition are unclear.

The level of stakeholder involvement – The Council

39. The Memorandum of Understanding between the GEF Council and the Stockholm Convention Secretariat is well functioning and strategic priorities aligned.
40. The level of direct interaction between the Council members and the COP is sparse.

The level of stakeholder involvement – The Parties

41. The Parties provide little strategic guidance to the GEF Secretariat.
42. Little effort has been done by the Parties to push each other on showing results and progress on project implementation and completion.

⁴ Annex to the decision SC – 3/17 on the Terms of Reference for the second review of the financial mechanism; 4d: Reports and information provided by other relevant entities providing multilateral, regional and bilateral financial and technical assistance pursuant to paragraph 6 of Article 13 of the Convention.

The recommendations of the review are summarized below and each of these recommendations can be found in section 3 of the document with more detailed description and analyses:

(1) *GEF policy*

1. The GEF secretariat should ensure that the Operational Guidelines for the Application of the Incremental Cost Principle are clear and simple.
2. The GEF secretariat should ensure that the Operational Guidelines for the Application of the Incremental Cost Principle are well communicated.
3. The COP should strive to further improve guidance to the GEF.
4. The GEF secretariat should strive to provide more direct responses in its formal reports to the Conference of the Parties.
5. As the NIPs have recently been finalized and few projects implemented, the focus should continue to be on implementation rather than addressing potential changing needs of developing countries.
6. The GEF secretariat should ensure more transparency and clarity on co-financing levels.
7. The GEF Council and the COP should promote higher co-financing levels.
8. The GEF Secretariat should conduct an evaluation of the performance of regional projects.
9. The GEF and the COP need to identify incentives to increase the inclusion of cross-sectoral priorities.

(2) *Project Approval Process*

10. The GEF Council and the COP should consider how to incentivize the stakeholders in the PAP to ensure timely delivery and quality of projects.
11. The GEF Secretariat needs to define an appropriate monitoring role and identify the management tools necessary for enforcement.
12. The GEF Secretariat and the Stockholm Convention Secretariat should ensure that the entry point barriers perceived by countries are addressed.
13. The GEF Secretariat and the COP should provide incentives for all stakeholders to discontinue projects that are less than viable.
14. The GEF Secretariat and the GEF agencies should ensure that the process for disbursement is as efficient as possible.
15. The COP should acquire a better understanding of funding and actions needed to fulfil the obligations under the convention.
16. The Stockholm Convention Secretariat should put in place a system for tracking available funding and matching with the requests by the Parties.
17. The GEF Secretariat and the Stockholm Convention Secretariat should continue to focus their attention on the implementation of projects rather than addressing potential changing needs.

(3) *Stakeholder involvement*

18. If a broader participation by small and less developed countries is desired, the GEF Secretariat and the COP should engage in discussion on how to ensure sufficient country ownership and sustainability.
 19. To ensure sufficient country ownership, the GEF and the COP should evaluate the level of co-financing to be required by governments or collectively by the government, business, civil society and NGOs in each country.
 20. The GEF Secretariat and the GEF agencies need to be well coordinated in their communication with the countries.
 21. The GEF Secretariat and the GEF agencies should continue the effort to identify ways to increase cooperation between agencies.
 22. The GEF Secretariat and the Stockholm Convention Secretariat should ensure efficient communication between them as well as internally and facilitate communication between the GEF Council and the Parties.
 23. In order to ensure the right strategic focus by the GEF Secretariat, the Parties need to provide more and better strategic guidance.
 24. The Parties should focus more on using project implementation progress and results to incentivize “late comers” to make progress.
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