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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

SUBSIDIARY BODY FOR IMPLEMENTATION

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Bonn, 28 July - 5 August 1997

Item 5 of the provisional agenda

FINANCIAL MECHANISM

REVIEW PROCESS REFERRED TO IN DECISION 9/CP.1

Compilation of submissions

Note by the secretariat

1. The Conference of the Parties (COP), at its first session, by its decision 9/CP.1, agreed to review the Financial Mechanism within four years of the first COP, and take appropriate measures, including a determination of the definitive status of the Global Environment Facility (GEF) in the context of the Convention (FCCC/CP/1995/7/Add.1). The COP, at its second session, by its decision 11/CP.2, requested the Subsidiary Body for Implementation (SBI), at its fifth session, to undertake the review process referred to in decision 9/CP.1 and to report on its outcome to the COP at its third session (FCCC/CP/1996/15/Add.1).
2. The Subsidiary Body for Implementation (SBI), at its fifth session, noted that, in order to facilitate a fully-informed review, information from Parties as well as from other sources specified in the guidelines for the review of the financial mechanism would be particularly important, and invited Parties to submit views on their experience regarding the financial mechanism by May 15, 1997. It further requested the secretariat to prepare a compilation of the submissions (FCCC/SBI/1997/6 paras. 20 (c)(ii) and (d)).
3. The secretariat has received submissions from eight Parties, namely, Bolivia, Canada, Egypt, Ethiopia, Gambia, Kenya, Netherlands (on behalf of the European Community and its member States) and Sri Lanka. A submission from the Organization of the Petroleum Exporting Countries was also received. 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.
4. In addition, the secretariat has received a submission from the Climate Network Africa (CNA). It is the practice of the secretariat not to reproduce documents from non-governmental organizations. However, Parties may wish to request copies of this submission directly from the CNA at the following address: Climate Network Africa, P.O. Box 76479, Nairobi, Kenya.

FCCC/SBI/1997/MISC.3

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PAPER NO. 1: BOLIVIA

La Embajada de Bolivia ante la Republica Federal de Alemania saluda atentamente a la Secretaria de la Convención Marco de las Naciones Unidas sobre Cambios Climáticos (CMNUCC) y tiene el honor de adjuntar los comentarios del Gobierno de Bolivia sobre los Mecanismos de Financiamiento y las Consideraciones sobre las Comunicaciones Nacionales de los Países, solicitados por esa Secretaria:

1. MECANISMOS FINANCIEROS:

- Se ha podido establecer en principio que no existe una verdadera difusión de la existencia de recursos financieros a través del GEF para proyectos que se enmarquen dentro de la Convención Marco de las Naciones Unidas sobre el Cambio Climático.
- Tampoco se establecen los montos tope de los proyectos y los procedimientos que deben seguirse para acceder a dichos fondos, sumandose a ello los innumerables procedimientos administrativos que se debe cumplir que inciden directamente en los tiempos de aprobación de un determinado proyecto.
- Se ha podido establecer que se pone en un mismo paquete proyectos vinculados al protocolo de Montreal y a la CMNUCC, así como a proyectos binacionales medioambientales, debiéndose aprobar tan sólo uno de ellos, lo cual no permite acceder a recursos exclusivos para proyectos que se enmarquen en la CMNUCC.
- Se hace necesario mejorar dichos mecanismos y especialmente darle una mejor dinámica en sus procedimientos.

2. COMUNICACIONES NACIONALES:

- En relación a las comunicaciones nacionales debe quedar claramente establecido que no se ha determinado la asignación de fondos por parte del GEF para llevar adelante estas Comunicaciones, puesto que tan solo se espera el apoyo económico-financiero de algunos países del Anexo-1 que, en algunos casos, interponen exigencias no siempre al alcance de los países en vías de desarrollo. Es en este sentido que la Secretaria de la Convención debe disponer la asignación de fondos directos para el desarrollo de las Comunicaciones Nacionales de los Países en vías de desarrollo a la brevedad posible, toda vez que muchos deben cumplir con sus presentaciones en 1998.

La Embajada de Bolivia ante la República Fdeederal de Alemania hace propicia la oportunidad para renovar a la Secretaria de la Convención Marco de las Naciones Unidas sobre el Cambio Climático, las seguridades de su distinguida consideración.

PAPER NO. 2: CANADA

**CANADIAN SUBMISSION TO THE SUBSIDIARY
BODY ON IMPLEMENTATION**

**EXPERIENCE WITH THE GLOBAL ENVIRONMENT FACILITY AS THE
INTERIM FINANCIAL MECHANISM OF THE FCCC**

The Fifth Session of the Subsidiary Body for Implementation (SBI 5) initiated the review process of the financial mechanism. The findings of the review will be reported upon at the Third Conference of the Parties, in December, 1997, in Kyoto. The following articulates Canada's response to the invitation by the SBI 5 to Parties to submit views on their experience regarding the GEF.

The nature and extent of challenges that Parties face in addressing global climate change highlight the need for secure financing resources to developing countries. A decision at Kyoto this December to designate the GEF as the permanent financial mechanism of the Convention would send a consistent and unambiguous message on the part of Parties as we move towards replenishing the GEF. In this regard, Canada acknowledges the importance of a comprehensive review of the GEF and is generally satisfied with the guidelines agreed to at SBI 5.

While more can and should be achieved, efforts undertaken by the GEF so far show significant progress in responding to the guidance of the CoP and in providing assistance to developing countries to implement the Convention. In particular, Canada would like to outline three important points.

First, the GEF is increasingly leveraging financial resources from both the private sector and other co-funding sources. However, private sector involvement and innovative financing approaches and partnerships are to be further encouraged in order to maximize the global impacts of GEF resources. Canada is of the opinion that this should apply in particular where capital intensive projects are concerned.

Secondly, Canada has repeatedly expressed concerns over the difficulties that developing countries experience in receiving adequate financial support from the GEF for the preparation of their national communications. We welcome the prompt response by the GEF for the steps undertaken to ensure the rapid preparation, approval and implementation of enabling activities. The funding process for supporting the preparation of initial communications by developing countries now appears to function more effectively. Also, timely disbursement of funds, another matter of concern, is being improved by speeding up processing in the Implementing Agencies.

Further, at the GEF Council, Canada and other donating countries have been continuously encouraging the GEF, in accordance with its mandate, to continue to cooperate with other international organizations, particularly the Multilateral Development Banks, the World Bank and other institutions, to mainstream sustainable development concerns, particularly climate change considerations, in their lending practices. We welcome the steps taken by the Implementing Agencies to integrate the global environmental agenda into the core of their programmes.

In particular, an encouraging example is provided by the World Bank which developed a series of Guidelines for Climate Change Global Overlays. This new tool should enable the Bank and relevant counterparts in recipient countries to extend the sector/country work by including greenhouse gas emission impacts and potential mitigation options in the analysis of possible investment actions. The Global Overlay framework is also designed to be compatible with the GEF Operational Strategy in the field of climate change and can assist developing countries in meeting their commitments under the Convention.

Canada supports the view that the GEF, as part of its catalytic role, should continue to promote climate change considerations in the mainstream activities of relevant institutions. To the same end, Canada would like to make an explicit request to the SBI that the necessary steps are taken to formally operationalize paragraph 2(a) of decision 11/CP.1 which reads as follows:

2.(a) *Outside the framework of the financial mechanism,*

Consistency should be sought and maintained between activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism and the policies, programme priorities and eligibility criteria for activities as relevant, established by the Conference of the Parties. Towards this end and in the context of Article 11.5 of the Convention, the secretariat should collect information from multilateral and regional financing institutions on activities undertaken in implementation of Article 4.1 and Article 12 of the Convention; this should not introduce new forms of conditionalities.

Canada is looking forward to the synthesis report prepared by the Secretariat based on submissions from Parties on their experience with the financial mechanism.

PAPER NO. 3: EGYPT

The Ministry of Foreign Affairs of Egypt (Department of Environment and Sustainable Development) presents its compliments to the Secretariat of the United Nations Framework Convention on Climate Change, and with reference to the reviewing process of the Convention interim financial mechanism operated by the GEF, has the honor to transmit herewith the Egyptian competent authority's views regarding this issue

1- Concerning the GEF commitment in providing financial resources to cover the developing countries full costs of presenting its greenhouse gas emissions lists, so as its national communicues, it is observed that this process, which took place once a time within the framework of the capacity building operation, is considered a continuous process need a permanent monitoring systems covering all the emission resources which is not actually feasible in number of developing countries *interalia* Egypt. Further more the capacity building process and awareness about the importance of the Climate Change question need a continuous operation which is not provided in the existing GEF financial resources.

2- Regarding the transfer of technology to the developing countries with view to enabling it to implement the Convention procedures, there is no any concrete progress realized in this field.

3- The slowly procedures concerning providing adequate financial resources to developing countries which is not adequate to the urgent need of developing countries to implement their obligations within the Convention framework.

The Ministry of Foreign Affairs of Egypt (Department of Environment and Sustainable Development) avails itself of this opportunity to renew to the Secretariat of the United Nations Framework Convention on Climate Change the assurances of its highest consideration.

PAPER NO. 4: ETHIOPIA

Submission of Ethiopia

13 April 1997

1. Financial Mechanism: Review process Referred to in Decision 9/CP.1.

Ethiopia has shown its commitment to protect the earth's climate by signing the United Nations Framework Convention (UNFCCC) at the Earth Summit and ratifying it on 05 April 1994.

It has gained initial useful experience in greenhouse gas inventory and climate change Vulnerability, Adaptation and Mitigation Assessments by participating in the US supported Climate Change Country Study Program.

As a developing country party to the UNFCCC, Ethiopia is eligible for financial support for preparing its national communication from the Global Environmental Facility (GEF). Accordingly in a letter sent to the UNDP-GEF in New York on 11 February 1997 through the National GEF operational focal point (Environmental Protection Authority), Ethiopia has expressed interest to get support for enabling activities to advance meeting its commitments under the Convention. So far we have received no information on the status of our request. Since our experience with the GEF with respect to financing activities related to meeting commitments in the UNFCCC is limited, it would be early for us to comment on the effectiveness of the GEF as an interim operating entity of the financial mechanisms of the Convention.

2. Views for the process of consideration of non-Annex I communications

Non-Annex I countries are expected to submit their initial national communications starting from 1997 using the guidelines adopted in Decision 10/CP.2.

We believe that the process of consideration of national communications from Non-Annex I countries has to be started using the existing review/assessment mechanisms in the Convention relating to the implementation of commitments but the adequacy of technical and financial support made available to each Non-Annex I parties has to be considered first. The experience gained from the in-depth review process of first National Communications of Annex I Countries may also be useful here

PAPER NO. 5: GAMBIA*

**Submission from The Gambia Government Relating to Discussions to be held
During the UNFCCC - SBI Sixth Session in July/August 1997**

1. Subsidiary Body for Implementation (SBI)- Financial Mechanism

- a. The Gambia strongly believes that GEF's funding should be focused on assisting non-Annex I countries fulfill their obligations to the Convention especially where capacities are limited by inavailability of financial resources, expertise and appropriate technologies.
- b. It is The Gambia view that GEF's process of evaluating proposals takes a very long time. It often takes about half of the projects life spans. It is therefore worthwhile to curtail GEF's projects processing period.
- c. The Gambia also suggests that SBI provide the required funding through GEF to allow Parties and Observers to exchange information and views on the implementation aspects of Specific Policies and Measures (P & M) taken by the Parties included in Annex 1 to the Convention. This could be done through the convening of cost-effective and innovative workshops on specific topics on the climate agenda. This will increase understanding and develop capacities.

2. Views on the Preparation of non-Annex 1 Communication

- a. The Gambia, like other non-Annex 1 Parties, suggests that financial support be provided to enable Parties gather the required information, mobilize rapid expert assistance and exchange experience with other countries on the preparation of their national communications.

* This contribution has been retyped. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

PAPER NO. 6: KENYA

SUBMISSIONS FROM PARTIES REQUESTED BY THE FIFTH SESSION OF THE SUBSIDIARY BODY FOR IMPLEMENTATION

1. FINANCIAL MECHANISM: REVIEW PROCESS REFERRED TO IN DECISION 9/CP.1

TRANSPARENCY OF THE GEF'S DECISION MAKING PROCESS

The GEF still lacks transparency and balance in its decision making process. The level of participation at the GEF Council should therefore be reviewed. At the regional level, the focal points should be facilitated so as to discharge their duties. Facilitation would allow for more flow of information and consequently, views which would be more regional presented during the council meetings.

THE ADEQUACY, PREDICTABILITY AND TIMELY DISBURSEMENT OF FUNDS FOR ACTIVITIES IN DEVELOPING COUNTRY PARTIES

There seems to be a deliberate selectiveness in the way the GEF funds are allocated, with Africa so much at a disadvantage. The funds so far allocated for activities are not adequate and even when once allocated, are not predictable nor timely.

Responsiveness is poor - there are long periods of delay between the submission of programmes/project proposals and response and it seems that no effort is made to find out the level of finance needed for submitted projects. The project cycle is consequently undermined by lack of resources and their unpredictability.

CASE STUDY

Kenya is one of the four countries participating in the GEF Project "Building Capacity in Sub-Saharan Africa to Respond to the United Nations Framework Convention on Climate Change". A project funded by GEF to the tune of USD2million. The aim the project is to create or strengthen national institutions, to give countries the capacity to respond to the Convention. These were projected to include the development of inventories of ghg emissions and their sinks, cost effective policy options based on these inventories, and the development of projects suitable for public or private funding. Activities are also to be organised at the regional level in cooperation with other related organisations and activities to help develop African positions on relevant issues. The implementation started in June 1996 and to date Kenya has accessed no more than USD20,000 from the project funds for 3

workshops which were mainly for sensitization and needs assessment. We cannot say with certainty when the next release of funds for the project activities will be. It has now been confirmed that this project will not last the projected two years.

In October 1996, the country submitted a proposal to the Climate Change Secretariat (then in Geneva) requesting for funds to carry out the 1st National Communication. It was not until the 2nd half of January that a response was received. The proposal had been forwarded to GEF.

When the GEF responded it was to say, that most of the activities proposed in the National Communication proposal were to be carried out in the Regional GEF Capacity Building Project.

It is now quite clear that the funds for the capacity building project we expect to receive will not be adequate to cover National Communications. The GEF in this instance has confused two projects; one on National Communications which is urgent, while the other is on capacity building that was projected to last two years and has hardly started. The GEF made an erroneous assumption in that the capacity building project could also cover national communications and therefore, rejected our proposal on communications.

The funds allocated to the Capacity Building project are not adequate even to satisfactorily undertake the core activities. From the experience gathered so far we can say with certainty that more funds would have gone to project activities if the funds were given directly to countries. Having many entities as the middlemen to supposedly coordinate, only proves expensive and derails these projects making them no longer country driven. The GEF should deal directly with countries not with intermediaries. In the case of the Capacity Building project, less than one third of the project funds will go into project implementation related activities in the four participating countries.

**AMOUNT OF RESOURCES PROVIDED TO DEVELOPING COUNTRIES PARTIES,
INCLUDING FINANCING FOR TECHNICAL ASSISTANCE AND INVESTMENT
PROJECTS**

There is need for the GEF to communicate with participating countries giving clear statements on the amount of resources provided to developing countries particularly Africa, including financing for technical assistance and investment projects.

Kenya has yet to benefit from the provision of finances for technical assistance and investment projects.

AMOUNT OF RESOURCES LEVERAGED

. US Country Study - USD198,000
. UNEP/CIRSNet - USD 20,000

THE SUSTAINABILITY OF FUNDED PROJECTS

The United Nations Framework Convention on Climate Change promises much in the way of both financial and technical assistance to the developing countries. The GEF on an interim basis is the financial mechanism for doing this. So far, none of these promises have been met.

The GEF projects when finally approved and are being implemented have no in-built sustainability and are therefore not providing much support to the implementation of the Convention. National Communication, for example, will be a continuous exercise and therefore sustainability should be provided for.

2. VIEWS FOR THE PROCESS OF CONSIDERATION OF NON-ANNEX 1 COMMUNICATION

The timing of submission of these communication should be, according to Article 12.5; with three years of entry into force of the Convention for that Party, or availability of financial resources in accordance with Article 4 paragraphs 3.

The Review of these communications, which should be through correspondence should be:-

- based on the guidelines, facilitation and process for consideration as adopted by COP II in Geneva.
- carried out primarily by other non Annex 1 Parties with a few representatives from Annex 1.

PAPER NO. 7: NETHERLANDS
(on behalf of the European Community and its member States)

*** Views for the process of Consideration of Non-Annex I Communications**
(SBI-6)

In order to contribute to the preparations of further discussions on this issue by SBI, the Netherlands, on behalf of the Community and its Member States would like to forward views of the EU on the process for consideration of the National Communications of Non Annex I Parties.

The CoP agreed in Decision 10/CP.2 on two objectives with regard to the process for consideration of the National Communications of Non Annex I Parties, taking into account Art 4.7: i.e. 'to facilitate the process of (...) consideration of the communications' (...) and 'to ensure that the CoP has sufficient information to carry out its responsibilities to assess the overall aggregated effects of the steps taken by the Parties in the light of the latest scientific assessment concerning climate change, and to assess the implementation of the Convention.'

In order to reach these objectives and learning from experiences with the process of consideration of national communications of Annex I Parties, in which experts of all parties participated, the EU finds the following elements essential for the discussion of such a process:

- the nature of the process should be facilitative and non-confrontational, as the review for Annex 1 countries has proved to be;
- the in depth review should be introduced along the lines of existing arrangements for Annex I;
- the use of country visits should be an integral part of the assessment. This is because it is difficult to gain full understanding of a national communication without face to face meeting with national experts who produced it. It would also be difficult to provide source data to cover every aspect of a national communication for consideration by a remote team;

*** EU submission on the Review of the Financial Mechanism**

At its fifth session the Subsidiary Body for Implementation agreed upon guidelines for the review of the financial mechanism. This review would, inter alia, draw upon information submitted by Parties to the Secretariat on their experiences regarding the financial mechanism. It was agreed that Parties would submit information by 15 May and that the Secretariat would compile these submissions, preparing a synthesis report for the consideration of Parties at the sixth session of the SBI. Accordingly the EU would like to present the views of its member states, paying particular regard to the financial mechanism's capacity to meet our obligations under Article 4.3. of the Convention.

Essentially, this requires us to provide new and additional financial resources to meet the agreed full costs of developing country party's obligations under Article 12.1. and the agreed full incremental costs of meeting developing country Parties obligations under Article 4.1. In our view, the GEF has developed satisfactorily to the extent that it now has our full confidence as the means of effectively transferring these new and additional resources to developing country Parties. In broad terms, since its inception in 1991, the GEF has been restructured and replenished, it has developed an Operational Strategy and Programmes that directly follow the guidance of the CoP and it has completed agreement on its Memorandum of Understanding with the Convention,

These developments are a continuing process; they provided the necessary assurance for all donors to commit over \$2bn to the first replenishment and they have created a strong basis for future replenishments. Some \$523m have now been committed to projects that fulfil the requirements of Article 4.3. We see potential for the GEF's further improvement in its role as the Convention's financial mechanism and believe that the review process should be structured to monitor and influence this improvement.

We look forward to learning of the experiences of recipient countries during the review process and suggest that Secretariat should arrange for experts from the GEF and its implementing agencies to be available at the next meeting of the SBI to respond to any specific issues raised to our developing country partners.

Finally the EU would like to reiterate the proposal made in its statement to the fifth session of the SBI. We believe the financial mechanism should be appointed on a continuing basis, dependant on a regular review process. This would take into account the conformity of the financial mechanism with the guidance of the CoP and the reports to the CoP and the reports of the GEF's Monitoring and Evaluation programme. We believe a four year time span would be appropriate for this process and, as such, the GEF should henceforth have continuing status as the operating entity of the financial mechanism.

The EU would be pleased to provide further information on these issues.

PAPER NO. 8: SRI LANKA

The comments of the Government of Sri Lanka on the Financial Mechanism and National Communications from non-Annex I Parties are given below.

1. Financial Mechanism

1.1 The Global Environmental Facility (GEF), as the key financial facility of the FCCC is inadequate. It serves three other areas than climate change. Sri Lanka is of the view that there should be a separate financial mechanism administered by the FCCC exclusively for meeting the needs of non-Annex I Parties in complying with the provisions of the FCCC.

1.2 Sri Lanka's experience with the GEF and its Implementing Agency operations is far from satisfactory. A project proposal prepared by an Implementing Agency consultant on Enabling Activities and submitted to GEF through the Implementing Agency in July 1995 has just been taken up by GEF, after a lapse of 22 months. The final project document prepared by the Implementing Agency has many inconsistencies and shortcomings for which no response has been received even after our pointing out them. Furthermore, the quantum of funding approved is totally inadequate to prepare the communication to comply with Decision 10/CP.2.

1.3 A project for the development of Renewable Energy Resources already approved by GEF more than a year ago has yet to be implemented. The Implementing Agency is expected to prepare a detailed work-plan and this is still awaited.

1.4 Sri Lanka does not endorse two factors included among the criteria established by GEF Council for disbursement of funds. These are: duplication and cost-effectiveness.

The project proposals seeking funding from GEF are generally prepared by consultants engaged by the Implementing Agencies. It is very unlikely that they would incorporate any project for GEF funding which is already receiving funds from other sources. The cost-effectiveness is disadvantageous to low-emitting parties and should be given low priority. Furthermore, this concept applies only for Mitigation projects which are not the priority areas for developing countries including Sri Lanka.

2. Non-Annex I Communications

2.1 The Convention provides for non-Annex I parties to submit their initial communication within 3 years of the Convention coming into force or 3 years of the availability of financial resources to prepare the communication. Sri Lanka opts for the latter. As mentioned in clause 1.2 above, a small grant for carrying out enabling activities has just been approved by GEF, but it is uncertain how long it will take for the Implementing Agency to remit money to the Government of Sri Lanka. Hence, the date for submission of Sri Lanka's Communication is uncertain to the same extent.

2.2 The Government of Sri Lanka is of the view that the proposed contents of the National Communications from non-Annex I Parties is quite comprehensive and the suggested process of consideration to be satisfactory maintaining transparency.

2.3 The Government of Sri Lanka, however, wishes to bring to the notice of the Conference of Parties that collection of information that should go into the Communication would involve much time and effort, and financial resources. Even the identification and describing the financial and technological needs and constraints as required in Clause 19 of Decision 10/CP.2 cannot be carried out within the national budget or the meagre grant given by GEF under Enabling Activities.

2.4 Even though the Articles 4.3, 4.4 and 4.5 of the Convention have made it obligatory for the developed country Parties to assist developing country Parties in the preparation of their National Communications, our experience in this regard has been a negative one. The missions of developed country Parties posted in developing countries, at least in Sri Lanka, do not seem to be aware of these obligations. For that matter, they hardly know what the FCCC is. Even the terms JI and AIJ are new to them. As a result, our proposal for assistance to prepare a National Action Plan on Climate Change forwarded to several local missions brought only a negative response.

I trust that you will find the above comment useful in compiling your synthesis report.

PAPER NO. 9: ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES

Further to your fax of 30th April, 1997, concerning information from Intergovernmental Organizations on the Financial Mechanism: Review Process referred to in Decision 9/CP.1, please find here below the comments of the OPEC Secretariat.

The need to consider those countries suffering economic damage as a result of measures undertaken to reduce the emissions of greenhouse gases is rooted in the UNFCCC, in particular in articles 4.8(h) and 4.10. Given that article 11.3(d) of the FCCC (Financial Mechanism) emphasises the need to determine the "amount of funding necessary and available for the implementation of this Convention", it could be reasonably argued that one of the criteria for identifying Parties that are eligible for fund disbursement could be the vulnerability of the country to climate change mitigation measures.

We note also, that, of the Climate Change projects portfolio documented in the report by the GEF to the last meeting of the SBI (FCCC/SBI/1997/2) there was only one OPEC Member Country listed as a recipient for country-specific projects, namely Indonesia. Many of the types of projects that are documented might be of interest to OPEC Member Countries. Furthermore, the Project Development and Preparation Facility (PDF), which provides GEF financing for preparing project proposals, should also be of interest to OPEC Member Countries. In this regard, we note that the GEF appealed to COP2 to co-ordinate "an outreach process to inform recipient countries of the availability of resources". This process needs to be strengthened, and included in the guidelines for the "Financial Mechanism".