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Operational Program for Mercury and Options for a Financial Mechanism

Executive Summary

This paper presents options the Council may wish to consider for an operational program on Mercury if the Intergovernmental Negotiating Committee to Prepare a Globally Binding Agreement on Mercury (INC) adopts the Global Environment Facility as one of or the financial mechanism(s) of the Convention.

The INC is set to conclude its negotiations on the “Mercury Convention” in 2013 and the GEF Council has the opportunity to convey to the negotiations its willingness to be the financial mechanism of the Convention.

The negotiations of the financial mechanism is still in its infancy, but there are two clear paths forward which the paper details and provides the Council with options on the operation of different trust fund permutations.

Table of Contents

I. Introduction and Summary	1
II. Background	1
Inter Governmental Negotiating Committee and Funding Tracks.....	2
The GEF and Mercury	3
Rationale for an Expanded GEF Role.....	4
III. Elements of an Operational Program on Reducing and Eliminating Releases of Mercury	
Into the Environment	4
Enabling Activities.....	5
Capacity Building, Technology Transfer, and Investments.....	6
GEF Coordination and Leveraging Functions	7
IV. Possible Models of Financial Mechanisms for a “Mercury Convention” in which the GEF	
Operates as the Secretariat	8
V. Option 1: Mercury Consolidated into the GEF Chemicals Focal Area, together with POPs	
and ODS.....	8
Format for Channeling Resources:	8
Operations and Administration Requirements:.....	9
Replenishment:	9
VI. Option 2: Mercury Fund Modeled on the LDCF/SCCF	9
Format for Channeling Resources:	9
Operations and Administration Requirements:.....	9
Replenishment:	10
Other Considerations:	10
VII. Option 3: “Mercury Fund” Modeled on the Adaptation Fund Established within the GEF	
.....	10
Format for Channelling Resources:	10
Operations and Administration Requirements:.....	10
Replenishment	11
Annex 1: Additional Staff Costs of Administering a Mercury Fund	12
Annex 2: Acronyms.....	13

I. Introduction and Summary

1. The Global Environment Facility Council, being aware of the negotiation process for a new legally binding global agreement on the reduction and/or elimination of anthropogenic Mercury (Hg), has requested the GEF Secretariat to develop the main elements of an operational program (OP) to guide GEF's actions for addressing this new global challenge.
2. The financial resources required for assisting countries to meet their obligations under the draft "Mercury Convention", and the mechanism for their provision, is still under discussion. Should the GEF be designated as the Financial Mechanism to the Convention, the guidelines set forth in this new Operational Program will be adapted and revised in light of the provisions of the Convention. Future decisions will be guided by the Conference of the Parties (COP). To assist eligible GEF countries to address the full scope of obligations that might emerge under the new legal instrument, additional donor resources will need to be available.
3. This new operational program for Mercury and in particular the activities being considered for international action would include two main categories of eligible actions:
 - (a) development and strengthening of capacity, to enable the recipient country to meet the objectives of the convention. This first group of activities would be eligible for full funding of agreed costs;
 - (b) on-the-ground interventions, aimed at implementing specific phase-out/elimination measures. This category will be eligible for GEF incremental costs funding.
4. The note will elaborate on what would be eligible to be funded and options for establishing a fund modality for Mercury.

II. Background

5. Mercury is a global pollutant, which can be effectively controlled through coordinated international action. In the GEF's 5th Replenishment, an allocation of \$15 million was provided for projects to complement and advance negotiations on a global, legally-binding Mercury instrument. A strategy for Mercury was elaborated in document GEF/C.39/Inf.9.
6. The Mercury Intergovernmental Negotiating Committee (INC) process began in June, 2010 and has met three times and will continue to meet until early 2013 at which time the instrument is expected to be opened for signature. The Financial Mechanism discussion commenced at INC2 in Japan and continued at INC3 in Nairobi. Specific models for a Financial Mechanism, being considered by the negotiators include (i) the Global Environment Facility; and (ii) a standalone mechanism (new) created along the lines of the Multilateral Fund of the Montreal Protocol. Views expressed by Parties on the Financial Mechanism include:
 - (a) The Financial Mechanism should have mandatory contributions from donors at a specific level (along the UN scale of assessment)

- (b) All possible sources of financing, including other multilateral institutions and programmes, bilateral initiatives, the private sector and a broader set of donor countries should be explored.

7. It should be noted that after two sessions, no consensus has emerged on the financial mechanism and INC 3 decided to convene an intercessional contact group in April 2012, to help advance the discussions.

8. Mercury is traded internationally and used in a variety of products (including thermostats, thermometers, blood pressure gauges, and other measuring devices; batteries; switches, relays and other electronic equipment; fluorescent lamps; and dental amalgam) and industrial processes, (including artisanal and small-scale gold mining; certain processes for chlorine, caustic soda, and vinyl chloride monomer production.) For most products and processes, cost-effective alternatives to mercury exist. Reducing mercury use is the most direct way to reduce mercury exposures and releases to the environment.

9. Mercury is released unintentionally to the environment from a number of sources. The largest of these sources is fossil fuel combustion for power and heating. Other sources include industrial metals production, cement production, and waste incineration. Mercury emissions to the atmosphere can be controlled in conjunction with other pollutants, and through mercury-specific control measures.

Inter Governmental Negotiating Committee and Funding Tracks

10. Following the 2002 Global Mercury Assessment published by UNEP and the IOMC (Inter-Organization Programme for the Sound Management of Chemicals), governments recognized that mercury is a chemical of global concern due to its long range atmospheric transport, its persistence in the environment, its ability to bio-accumulate in ecosystems and its significant effects on human health and the environment.

11. Within this context, the UNEP Governing Council at its 24th session (decision GC 24/3) established an Ad Hoc Open Ended Working Group (OEWG) on Mercury with a view to setting up elements for a comprehensive mercury framework, within two options: developing a legally binding instrument or adopting voluntary measures for mercury.

12. After several sessions, the OEWG agreed to support a legally binding instrument and proposed the establishment of an INC to develop a comprehensive and suitable approach to mercury, including principles underpinning the instrument, as well as provisions to specify the objectives of the convention, to reduce the supply of mercury, to reduce atmospheric emissions, to address remediation of contaminated sites, etc, and to address financial and technical assistance. This proposal was adopted by the UNEP Governing Council at its 25th Session (decision GC 25/5).

13. The INC met three times: 1) Stockholm, in June 2010; 2) Tokyo, in January 2011; and 3) Nairobi in November 2011, to discuss the provisions of the legally binding instrument.

14. On the issue relating to the financial arrangement, a consensus emerged among the Parties that a Financial Mechanism for the Mercury Convention is needed to allow developing countries and countries with economies in transition (CEITs) to implement effectively the legal obligations under the Convention.

15. Based on this consensus, the governments requested UNEP to draft a document on “options for predictable and efficient financial assistance arrangements”. The UNEP document primarily provides an update on the Global Environmental Facility and the Multilateral Fund for the implementation of Montreal Protocol.

16. Discussions on financial considerations revealed two distinct views:

(a) A group of countries, including most GEF donor countries and some developing countries, favor using existing mechanisms and see the GEF as the principal entity to serve as the Financial Mechanism for the future convention, while remaining receptive to an MLF-model mechanism;

(b) Another group of countries favor a stand-alone mechanism, which would require creating a new institution.

17. These two views have arisen from the existence of two Financial Mechanisms that exist today to fund environmental agreements; these are the GEF and MLF. The GEF is a multifocal area fund and receives guidance from the Conference of the Parties of the Conventions it serves and the MLF is a single focal area fund, which is controlled directly by a subsidiary body of the Montreal Protocol.

18. The discussion on the form of the instrument’s Financial Mechanism will undoubtedly continue throughout the INC process and will likely not be finalized before the last INC (January 2013) or possibly even at the Diplomatic Conference (conference of plenipotentiaries) which will convene in 2013 in Japan.

19. The following provides an update of GEF activities relating to chemicals management. The options that the GEF Council may consider for acting as the Financial Mechanism to the Mercury Convention in which the GEF provides the Secretariat services are also presented. Three options modeled on the trusts funds managed by the GEF, the GEF Trust Fund, the Least Developed Country Fund and the Special Climate Change Fund (LDCF/SCCF) and the Adaptation Fund (AF), are provided.

The GEF and Mercury

20. The involvement of the GEF in addressing global contaminants dates back to 1995, when the GEF Council, recognizing the global significance of the problems posed by Persistent Toxic Substances (PTS), which include mercury, heavy metals and organo-metallic compounds, approved the eligibility of actions aimed at “limiting the releases of contaminants causing priority concerns” in the international waters focal area. Specific reference to mercury is made in the Contaminant Based Operational Program (#10). The program scope of OP10 focuses on specific contaminants rather than a specific waterbody. The GEF-5 strategy for chemicals

consolidates the Persistent Organic Pollutants (POPs) and Ozone Depleting Substances (ODS) focal areas, and broadens the scope of the GEF's engagement with the sound management of chemicals and initiates work on mercury consistent with the INC process.

Rationale for an Expanded GEF Role

21. The Global Environmental Facility provides supports for the implementation of the Stockholm Convention on Persistent Organic Pollutants (POPs) and the Montreal Protocol, both addressing chemicals of global concern. The GEF has leveraged over US\$1 billion for POPs management and elimination and chemicals-related operations in the ODS and International Waters focal areas;

22. The GEF is by far, the largest public funder in the area of chemicals management with two decades of experience, characterized by the phase-out of 29,000 ODP tonnes (ozone depleting potential tonnes) in CEITs and the sound disposal of more than 200,000 tons of POPs legacy in developing countries and CEITs.

23. As the leader in financing chemicals the GEF would be able to consolidate chemical financing for a number of issues with the structure of the GEF thereby facilitating a cost effective and coherent chemicals financing mechanism.

III. Elements of an Operational Program on Reducing and Eliminating Releases of Mercury Into the Environment

24. GEF response to the challenge posed by the increasing contamination of mercury will adhere to the basic principles set forth in the GEF Instrument and Operational Strategy, which establishes "Operational Principles" for the development and implementation of GEF eligible projects. They are:

- (a) For the purpose of the Financial Mechanisms for the implementation of conventions, the GEF will function under the guidance of, and be accountable to, the Conference of the Parties.
- (b) Incremental costs: GEF will provide new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits.
- (c) Cost-effectiveness: project activities will maximize global environmental benefits.
- (d) Country ownership: projects will be country-driven, and based on national priorities designed to support sustainable development, as identified within the context of national programs.
- (e) Flexibility: GEF will respond to changing circumstances, including evolving guidance of the Conference of the Parties and experience gained by monitoring and evaluation activities.

- (f) Public participation: projects will provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people; all non-confidential information will be made fully public.
- (g) Leveraging of additional financing: in seeking to maximize environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources.
- (h) Monitoring: GEF will ensure that programs and projects are monitored and evaluated on a regular basis.
- (i) Disclosure of information: GEF projects will provide full disclosure of all non-confidential information.

25. The new GEF Operational Program on the Phasing out of Mercury will be crosscutting in nature. Multiple global benefits in the areas of reducing consumption and production of chemicals of global concern, the prevention of transboundary contamination of water-bodies, the conservation of biodiversity, and the mitigation of climate change will be accrued from actions eligible under the new operational program.

26. Activities will be developed at three different geographical levels: national, regional, and global. Emphasis will be on actions at the country level, as the main objective of the Operational Program is to provide assistance to countries for the implementation of the provisions of the convention. Regional actions will also be eligible for financing if deemed appropriate by the countries, when similarities in environmental conditions and socio-economic context presents opportunities for the optimization of resources, the sharing of experience and the enhancement of replication potentialities. Interventions at the global level will also be eligible, in areas such as the facilitation of targeted research efforts, and assessments.

27. Eligible interventions will fall into two categories: Development and strengthening of capacity, aimed at enabling the recipient country to fulfill its obligations under the convention. These country specific enabling activities will be eligible for full funding of agreed costs.

- (a) On the ground interventions, aimed at implementing specific phase-out and remediation measures at national and/or regional level, and including components of targeted capacity building. This second category of GEF interventions (Full Sized Projects or Medium Sized Projects, including Targeted Research Projects) will be eligible for GEF incremental costs funding.

Enabling Activities

28. Enabling activities as defined in the GEF Operational Strategy represent basic building blocks of GEF assistance to countries. They are either fulfilling essential communication requirements to a Convention and providing basic and essential level of information to enable policy and strategic decisions to be made, or assisting planning that identifies priority activities within a country. Countries thus enabled will have the ability to formulate and direct sectoral and economy-wide programs to address global environmental problems through a cost-effective

approach within the context of national sustainable development efforts. Country driven enabling activities will normally qualify for full agreed costs funding when they are directly related to global environmental benefits and/or consistent with the guidance of a Convention.

29. Enabling activities may include:

- (a) Development of action plans to comply with the obligations under the “Mercury Convention” and for setting priorities for initiating future activities on Mercury.
- (b) The development of country inventories (production, imports, exports, stocks, and releases in the environment, contaminated sites, use and disposal of each of the mercury).
- (c) Review of available infrastructure capacity and institutions at different levels and assessment of the needs and options for strengthening them.
- (d) Development of appropriate policies and regulatory controls to achieve compliance with the “Mercury Convention”.
- (e) Assessment of enforcement capacities to ensure compliance with regulatory controls.
- (f) Assessment of the needs for the introduction of technologies, including technology transfer that would assist countries in meeting convention obligations.
- (g) Assessment of possibilities of developing indigenous alternatives.
- (h) Development of an outreach/information program to educate the public and industry about Mercury related risks, and measures to address them.
- (i) Global monitoring and effectiveness evaluation. The GEF may support the deployment of broad-scale monitoring and assessment activities, as well as the development and compilation of harmonized methods.

Capacity Building, Technology Transfer, and Investments

(Full Sized Projects and Medium Sized Projects¹)

30. Project Preparation Grants (PPG) may be requested to develop specific medium or full sized project ideas. Actions designed to implement plans and activities identified in the national plans and strategy will be prepared and assessed in the context of the Operational Program guidelines. They will be in conformity with the Operational Strategy principles, and should be consistent with the COP guidance.

¹ An expedited project cycle applies to projects requiring less than \$1M in GEF resources, referred to as Medium Size Projects.

31. Full Sized Projects and Medium Sized Projects eligible for funding will be focused on the following four major objectives:

- (a)Develop and/or strengthen the capacity of developing countries and CEITs to address the threats posed by Mercury, according to the priorities and needs identified by the countries. Eligible actions may include: the strengthening of infrastructure capacity and institutions at different levels, including monitoring and risk assessments; strengthening of the enforcement capacity to ensure compliance with regulatory controls; facilitation of technology transfer for the introduction of technologies, including indigenous alternatives, that would assist countries in meeting “Mercury Convention” obligations; enhancement of local infrastructure for distributing benign alternative technologies/products; implementation of outreach/information programs.
- (b)Promote/effect transition to sustainable alternatives. To achieve this objective, assistance will be provided to promote the access to, and transfer of, clean and environmentally sound alternative technologies/products/practices, including Best Available Technologies and Best Available Practices (BAT/BEP) (as will be defined by the relevant body of the Convention) for emissions reduction, and to facilitate transition also through barrier removal efforts. Consideration will be given to the local socio-economic and climatic conditions, and to the use of indigenous knowledge.
- (c)Facilitate the environmentally sound management of mercury stockpiles. Assistance will be provided in the identification², containment and stabilization, and environmentally sound storage of stockpiles, including “created stockpiles” (e.g.: Mercury being withdrawn from use). Initiatives under related agreements (e.g.: Basel Convention) will be taken into consideration.
- (d)Facilitate the identification and remediation of sites affected by mercury. Assessments, including risk assessments and feasibility studies may be required prior to the implementation of actual remediation measures. Focus will be on human health hazards and water resources. Within this context, particular consideration will be given to the needs of small island states.

GEF Coordination and Leveraging Functions

32. The delivery capacity of the GEF system within the context of the Operational Program on Mercury will be enhanced through the full involvement of the UNIDO, UNEP, UNDP, World Bank and the Regional Development Banks, according to their comparative advantages, and through the establishment of specific Strategic Partnerships. Additional partnerships can be developed with National Implementation Agencies and other international Agencies as appropriate.

33. The GEF within its mandate would provide a framework for consultation and cooperation to focus available *technical and financial resources on strategies, programs and projects consistent with the guidance from the COP. The GEF would extend its catalytic role to enhance*

² Including assessment of “suspected” stockpiles

the collective response to this new global challenge by coordinating closely with other actors such as bilateral donors, multilateral development cooperation agencies, major Non-Governmental Organizations (NGOs), and the private sector - primarily in the chemical industry. To more effectively address issues related the implementation of the convention's provisions GEF would promote and facilitate more integrated responses and programs of action. Such an effort would be aimed at:

- (a) increasing the capacity to deliver timely and quality projects, while increasing also the number of innovative project ideas and diversifying experience;
- (b) expanding the opportunities to co-finance and mobilize additional finance, thus leveraging additional resources for this global challenge;
- (c) achieving synergy and coordination among each agency's own programs in the field of Mercury according to their comparative advantages;
- (d) identifying actions and designing partnerships to address effectively the provisions of the convention, including the transboundary and global aspects of Mercury phase-out;
- (e) Facilitating overall coordination, and partnerships for achieving the needed levels of effective and sustained action.

IV. Possible Models of Financial Mechanisms for a “Mercury Convention” in which the GEF Operates as the Secretariat

34. The following models describe how the GEF Secretariat can fulfill the secretariat function of a “Mercury Convention” fund in three different operational and administrative scenarios. All the scenarios described below anticipate that the same level of new resources for assisting developing country parties and CEITs will be required. The additional funding that will be required for the operation and administration of the fund, as well as its programmatic efficiency/impact will vary from model to model.

35. Furthermore, it should be noted that each option would require additional staff to ensure smooth and efficient management of the mercury portfolio. Annexed to the document is a proposal for additional staff in each of the options presented.

V. Option 1: Mercury Consolidated into the GEF Chemicals Focal Area, together with POPs and ODS

Format for Channeling Resources:

36. In this option funding for Mercury would be incorporated into the GEF Trust Fund.

Operations and Administration Requirements:

37. Incorporating Mercury into the chemicals focal area of the GEF does not require any new or additional operational and administrative requirements, and could be made operational immediately. The GEF Secretariat and Council will continue to review and approve projects under existing GEF policy and guidelines and will incorporate guidance from the Mercury COP as is currently done with respect to the Stockholm Convention.

38. Accessing the resources will involve the same processes as currently practiced in the GEF, and these will be improved as the GEF continues to reform its operations.

39. The GEF will provide funding to countries to achieve specific emission reductions, to meet the control measures set forth by and within the time frames set under the “Mercury Convention”.

40. The GEF already has the technical capacity for funding chemicals management activities, so only minor adjustments to the GEF staffing would be required to manage the increased work load.

41. Under this option, the GEF Council would review and approve all Full Sized Projects and programs.

Replenishment:

42. Including Mercury funding in the chemicals focal area will allow donors to include their contributions for Mercury programming during the GEF replenishment, which reduces transaction costs by having a single replenishment negotiation and a more integrated approach in funding allocation as well as in programming.

VI. Option 2: Mercury Fund Modeled on the LDCF/SCCF

Format for Channeling Resources:

43. Under this scenario, funding for Mercury would be held in a separate fund, and the GEF would provide secretariat services to the fund. The convention would have similar operations, replenishment and subsidiary bodies as the LDCF and SCCF.

Operations and Administration Requirements:

44. The fund would be established under the guidance of the COP of the “Mercury Convention” and administered by the GEF.

45. A “Mercury Fund Council” would be comprised of the same Members as those of the GEF Council. The “Mercury Fund Council” would operate under the same policies, rules and procedures as does the GEF Council, absent a decision taken to the contrary. In order to conserve resources and for practical reasons, the Mercury Fund Council could meet back to back with the GEF Council, as does the LDCF/SCCF Council.

Replenishment:

46. Replenishments would be conducted through processes distinct from the GEF Trust Fund replenishments and based on the needs of the Convention Parties to meet the Convention obligations. However, these replenishment discussions could be held back to back with the GEF Trust Fund replenishment negotiations.

Other Considerations:

47. A “Mercury Fund” modeled on the LDCF/SCCF within the GEF would trigger additional costs related to the extension of the Council Meetings, as well as an imperfect integration of its programmatic mechanisms, leading to possible overlap/duplication, albeit to a lesser degree than if the Mercury Fund was a completely separate entity.

VII. Option 3: “Mercury Fund” Modeled on the Adaptation Fund Established within the GEF

Format for Channelling Resources:

48. Under this option, funding for Mercury activities would be maintained in a separate trust fund, and the GEF would provide Secretariat Services to the fund.

Operations and Administration Requirements:

49. A “Mercury Fund” set up along the line of the Adaptation Fund involves the establishment of a separate approval body (Council) and access procedures.

50. The new Council would review and approve projects and provide guidance to the Fund. The “Mercury Fund Council” can meet back to back with the GEF Council, similar to the meetings of the LDCF/SCCF Council. To the extent that the memberships overlap, this would be cost effective; otherwise the additional costs related to this option would further increase.

51. In addition, this option requires the definition and implementation of a compliance system with defined reduction schedules set against a pre-determined baseline for the production and consumption of Mercury.

52. Under this model, funding provided to a recipient party would then be linked to achieving a specific reduction target over a specific time period. For example, to enable Party X to reduce its baseline by 10% by 2018, the Fund will provide Party X, prior to 2018, with the resources necessary to implement projects to attain that 10 or more percentage reduction by 2018.

Replenishment

53. The Replenishment would have to be negotiated on the basis of the costs needed to meet the control targets of the Mercury Convention. These replenishment meetings can be concomitant with the replenishment negotiations of the GEF Trust Fund.

Annex 1: Additional Staff Costs of Administering a Mercury Fund

Staff Grade	Current Staff	New Staff Needed		
		Option 1 (Expansion of Chemicals Focal Area)	Option 2 (Fund modeled on LDCF/SCCF)*	Option 3 (Fund modeled on AF/MLF)
G – Cluster Coordinator	1	0	0	1
F	2	1	1	1
JPA	1	1	1	1
PA	1	0	1	1

* The fund will be under the Chemicals Focal Area.

Annex 2: Acronyms

AF	Adaptation Fund
CEITs	Countries with Economies in Transition
COP	Conference of Parties
EA	Enabling Activities
FSP	Full Sized Projects
GEF	Global Environment Facility
INC	Intergovernmental Negotiating Committee
IOMC	Inter-Organization Programme for the Sound Management of Chemicals
LDCF	Least Developed Country Fund
MLF	Multilateral Fund for the Implementation of the Montreal Protocol
MSP	Medium Sized Projects
NGO	Non-Governmental Organization
ODS	Ozone Depleting Substances
ODP	Ozone Depleting Potential
OP	Operational Program
OWEG	Open Ended Working Group
POPs	Persistent Organic Pollutants
PPG	Project Preparation Grant
PTS	Persistent Toxic Substances
SCCF	Special Climate Change Fund
SP	Strategic Program
UN	United Nations
UNDP	United Nations Development Program
UNEP	United Nations Environment Programme
UNEP GC	United Nations Environment Programme Governing Council
UNIDO	United Nations Industrial Development Organization