Providing financial resources

This chapter discusses how the financial resources for implementing the Convention are provided. The Convention calls for financial assistance from Parties with more resources to those less well endowed and more vulnerable. This recognizes that the contribution of countries to climate change and their capacity to prevent it and cope with its consequences vary enormously.

Developed country Parties (Annex II Parties) are to provide financial resources to assist developing country Parties implement the Convention. To facilitate this, the Convention established a financial mechanism to provide funds to developing country Parties.

The Parties to the Convention assigned operation of the financial mechanism to the Global Environment Facility (GEF) on an ongoing basis, subject to review every four years. The financial mechanism is accountable to the COP, which decides on its climate change policies, programme priorities, and eligibility criteria related to this convention, based on advice from the SBI.

COP 7 also established three special funds: the Special Climate Change Fund (SCCF) and Least Developed Countries Fund (LDC Fund), under the Convention; and the Adaptation Fund (AF), under the Kyoto Protocol. The SCCF and the LDC Fund are operational and managed by the GEF. Parties are still negotiating how to put the Adaptation Fund into operation.

Funding for climate change activities is also available through bilateral, regional and multilateral channels.

Section 13.A outlines the general provisions and arrangements under the Convention, including institutional arrangements with the GEF (13.A.1) and financial contributions from Parties (13.A.2). Box 13.1 explains some specific expressions used by the GEF and Box 13.2 outlines the Resource Allocation Framework. Section 13.B provides an overview of the guidance that the COP has given to the GEF. Section 13.C addresses sources of funding within and outside the financial mechanism of the Convention.

13.A. General provisions and arrangements

Article 4.3 of the Convention requires Annex II Parties to:

- provide new and additional financial resources to meet the agreed full costs (see Box 13.1) incurred by developing country Parties in fulfilling their reporting obligations under Article 12.1 (see chapter 18); and to
- provide such financial resources as needed by the developing country Parties, including for the transfer of technology, to meet the agreed full incremental costs (see Box 13.1) of implementing measures covered by Article 4.1 (which lays down the commitments of all Parties for programmes and measures related to mitigation and adaptation).

In addition, Article 4.4 requires Annex II Parties to "assist those developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects" (see chapter12).

Article 4.5 more broadly addresses technology transfer and related issues (see chapter 14), including the provision that Annex II Parties are to "take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention".

Box 13.1: "Incremental", "full" and "agreed" costs in accordance to the GEF

Although the Convention refers to "agreed full costs" and "agreed full incremental costs", it does not provide an operational definition of these terms, which is done by the GEF Council.

These concepts have however been defined by the GEF. In its 1996 policy paper on incremental costs[109], the GEF provided basic definitions and criteria for "incremental costs", "agreed full costs" and "agreed full incremental costs". While the GEF has done considerable work since then on elaborating the concept of incremental costs, and has announced simplified guidelines for their calculation, the 1996 definitions are still referred to for a basic understanding. The indications in this box therefore draw upon those definitions, and quotations are taken from the GEF policy paper, unless indicated otherwise.

"Incremental costs" are the additional costs associated with transforming a project with national benefits into one with global environmental benefits. As stated in the *Instrument for the Establishment of the Restructured GEF* (1994), the GEF provides funding "to meet the agreed incremental costs of measures to achieve agreed global environmental benefits"[110]. Incremental costs have therefore to be identified in order to determine the share of project costs that would be eligible for funding from the GEF. "A simple example of an action that incurs an incremental cost in order to realize global environmental benefits is the use of advanced solar energy technology in a situation where a less costly coal-fired power generator with pollution control would have been sufficient to generate the electric power needed for development, while meeting reasonable environmental standards … In such a case, the incremental cost is associated with the global environmental benefit of reduction in greenhouse gas emissions."

"Agreed" means that the funded costs of a project are agreed upon in advance between the GEF and the country where the project takes place. "Because projects are country-driven and because implementation is ultimately voluntary, recipients need not incur incremental costs that they feel would not be reimbursed in full."

The provision for "full" incremental costs involves two aspects: first, the incremental costs funded for a project are not to be diminished as a result of any additional domestic benefits that a project with global environmental benefits might yield in comparison with the baseline activity. Second, "every effort will be made to identify all the significant incremental costs and not just the most obvious ones".

The "agreed full costs" are to be funded for activities carried out in connection with Parties' reporting obligations under the Convention. "Because these activities include items such as studies and communications, for which there is clearly no activity in the baseline, the total costs and the incremental costs are in fact the same … For example, without global considerations, no country would need to prepare a greenhouse gas inventory, so the baseline is simply 'no inventory activity' and the incremental cost of the inventory is actually the total cost."

109 GEF/C.7/Inf.5; <http://thegef.org/Operational_Policies/Eligibility_Criteria/Incremental_Costs/incremental_costs.html>.

110 *Instrument for the Establishment of the Restructured Global Environment Facility*, paragraph 2. <http://thegef.org/Documents/Instrument/instrument.html>.

13.A.1. Institutional arrangements with the GEF

Article 11 of the Convention defines a "mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology". This financial mechanism is to function under the guidance of the COP and be accountable to it. Its operation "shall be entrusted to one or more existing international entities". Article 21.3 mandates the GEF[111] to be this entity on an interim basis.

The GEF was established by the World Bank, the United Nations Environment Programme (UNEP) and the United Nations Development Programme (UNDP) in 1991 to fund projects in developing countries that provide global environmental benefits.

Article 21.3 further states that the GEF "should be appropriately restructured and its membership made universal to enable it to fulfil the requirements of Article 11". Article 11.2 specifically requires "an equitable and balanced representation of all Parties within a transparent system of governance". The Convention's call to restructure the GEF was supported by Agenda 21[112] and the Convention on Biological Diversity (CBD). It reflected concerns, from developing countries especially, that the initial membership and decision-making processes of the GEF were too dominated by donors. At the time of the adoption of the Convention in 1992 the GEF was itself still at an early stage of development, its first three years of operation (1991–1994) having been conceived as a pilot phase.

Restructuring was completed in March 1994 and documented by the GEF in a report to the Intergovernmental Negotiating Committee (INC)[113]. The Instrument for the Establishment of the Restructured GEF foresees a governance structure including a Council, an Assembly and a Secretariat headed by a Chief Executive Officer (CEO). All States may become members of the GEF. The structure was conceived with the aim of ensuring a balanced representation of donor and recipient countries, which is reflected in the Council's composition as well as in its voting rules.

The **GEF Council**, which meets twice a year, functions as an independent board of directors, with primary responsibility for developing, adopting, and evaluating GEF programmes. It is composed of 32 members: 16 from developing countries, 14 from developed countries and 2 from EITs. Council decisions are normally taken by consensus. However, any member of the Council may require a formal vote, which shall be taken by a double weighted majority; that is, an affirmative vote representing both a sixty percent majority of the total number of participants (countries) and a sixty percent majority of total contributions. Since

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111 <http://www.thegef.org/>.

112 Paragraph 33.14(a)(iii).

113 *Report by the GEF to the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change on the Restructured Global Environment Facility*, Annex I to A/AC.237/89 <http://unfccc.int/resource/docs/a/89.pdf>. See also *Instrument for the Establishment of the Restructured Global Environment Facility*, <http://thegef.org/Documents/Instrument/instrument.html>.

the restructuring of the GEF in 1994, all decisions have been taken by consensus: the voting arrangements have never been utilized.

The **GEF Assembly**, composed of all participating States (currently 176), comes together every three or four years to assess the GEF's overall direction. The First GEF Assembly met in New Delhi in 1998, the second in Beijing in 2002 and the third is scheduled for August 2006 in Cape Town, South Africa.

According to Article 11.4, COP 1 was to decide whether to maintain the interim arrangements with the GEF. Within four years thereafter, the COP was to review the financial mechanism. COP 1 (March–April 1995) accordingly decided that the interim arrangements should be maintained (decision 9/CP.1) but further elaborated (decision 10/CP.1). Consequently, COP 2 adopted a **Memorandum of Understanding** (MOU) with the Council (1996) that determines their respective roles and responsibilities (decision 12/CP.2 and Annex). It states that the COP is to decide on policies, programme priorities and eligibility criteria for the financial mechanism and communicate to the Council any relevant policy guidance adopted at each of its sessions. The Council commits itself to ensuring the effective operation of the GEF in conformity with this guidance and to reporting regularly to the COP on its activities related to the Convention. In fact, the GEF has reported on its work related to climate change to the COP every year. The COP has to reconsider the funding decisions for specific projects if any Party is of the opinion that the decision does not comply with the policy guidance provided by the COP. However, it cannot directly change such decisions, but may ask the Council of the GEF for further clarification of the specific decision and, in due course, for a reconsideration of that decision.

The MOU also details, inter alia, the content of the GEF's annual reports to the COP, the cooperation between the secretariats of the Convention and of the GEF, the form of representation in meetings of governing bodies, and the review and evaluation of the financial mechanism. An Annex to the MOU on the "determination of funding necessary and available for the implementation of the Convention", was adopted at COP 3 (decision 12/CP.3[114]; see section 13.A.2).

In 1998, COP 4 ended the interim status of the arrangement and designated the GEF as an operating entity of the financial mechanism on an ongoing basis, subject to **review** every four years according to the guidelines annexed to decision 3/CP.4. The second review of the financial mechanism took place in 2002, supported by a report from the Convention secretariat[115]. In decision 5/CP.8, Parties stated that the GEF had performed its role effectively as an entity operating the financial mechanism of the Convention. They called on the GEF secretariat to initiate a dialogue, in consultation with the Convention secretariat, on how to implement more effectively the guidance provided by the COP to the GEF, and to explore opportunities for streamlining guidance. Consultations have therefore taken place between the two secretariats to strengthen collaboration

114 Referring to decision 1/SBI 4 (FCCC/SBI/1996/14 <http://unfccc.int/resource/docs/1996/sbi/14.pdf>), which contains the text of the Annex.

115 FCCC/SBI/2002/14 <http://unfccc.int/resource/docs/2002/sbi/14.pdf>.

and ensure regular communication and information exchange[116]. The third review of the financial mechanism should be finalized by COP 12 in 2006 drawing on recommendations from SBI 24. The recommendations will be based on a report on the financial mechanism[117], as well as views submitted by Parties on their experience of its effectiveness. As requested in decision 9/CP.10, the SBI will also use the report *The experience of international funds and multilateral financial institutions relevant to the investment needs of developing countries for the purposes of fulfilling their commitments under the Convention*[118]. In addition, the COP uses the GEF overall performance studies as inputs to its reviews of the financial mechanism[119].

13.A.2. Contributions of financial resources by Parties

Article 4.3 of the Convention emphasizes “the need for adequacy and predictability in the flow of funds and the importance of appropriate burden-sharing among developed country Parties”. Accordingly, Article 11.3(d) stipulates that part of the arrangements between the COP and the entity entrusted with operating the financial mechanism it is to be to determine “in a predictable and identifiable manner” the amount of funding necessary and available for implementing the Convention and the conditions under which that amount is to be periodically reviewed. Paragraph 9 of the MOU states that the COP and the GEF Council “shall jointly determine the aggregate funding requirements for the purpose of the Convention”. Referring to Article 11.3(d), the Annex to the MOU states that “in anticipation of a replenishment of the GEF [i.e. the commitment of additional funds], the COP will make an assessment of the amount of funds that are necessary to assist developing countries … in fulfilling their commitments under the Convention over the next GEF replenishment cycle”. It further stipulates that the “GEF replenishment negotiations will take into account fully and comprehensively the COP’s assessment”, and that the result is to be documented by the GEF in its annual report for consideration by the COP.

COP 8 (October–November 2002) asked the secretariat to prepare a report, in consultation with the GEF secretariat, on the implementation of the provisions that determine the funding required to implement the Convention (decision 5/CP8). After consideration of this report, SBI 20 (June 2004)[120] asked the secretariat to prepare a further report, again in collaboration with the GEF secretariat, to be considered by COP 10. This second report would assess the funding necessary to assist developing countries in fulfilling their commitments under the Convention[121]. In order to contribute to the joint determination under paragraph 9 of the MOU referred to above, it would also assess, with the

116 See the report of the GEF to COP 9, FCCC/CP/2003/3 <http://unfccc.int/resource/docs/cop9/03.pdf>.

117 FCCC/SBI/2006/7 <http://unfccc.int/resource/docs/2006/sbi/07.pdf>.

118 FCCC/SBI/2005/INF.7 <http://unfccc.int/resource/docs/2005/sbi/eng/inf07.pdf>.

119 See OPS3: Progressing toward environmental results, Third Overall Performance Study of the GEF, Executive version, June 2005 <http://www.thegef.org/MonitoringandEvaluation/MEPublications/MEPOPS/documents/Publications_OPS3_lite.pdf>.

120 FCCC/SBI/2004/6 <http://unfccc.int/resource/docs/2004/sbi/06.pdf>.

121 FCCC/SBI/2004/18 <http://unfccc.int/resource/docs/2004/sbi/18.pdf>.

Council of the GEF, the amount of funding necessary and available for the implementation of the Convention as defined in the MOU[122].

COP 10 (December 2004) noted that although the previous replenishments had been successful, the COP had not made a formal assessment or communication of the amount of funds for the purpose of the joint determination that were necessary to assist developing countries. It was decided that the assessment report (the second report, mentioned above) should constitute an input from the COP to the fourth replenishment negotiations of the GEF Trust Fund (decision 9/CP.10). By the same decision, COP 10 also urged the GEF to ensure that adequate funding was available to enable developing countries to meet their commitments under the Convention. For the fourth replenishment of the GEF, COP 11, in its decision 5/CP.11, requested that the GEF include in its regular reports to the COP information on the "initial application of the Resource Allocation Framework to resources allocated in the fourth replenishment of the GEF that is operational from July 2006, focusing on the climate change focal area" (see Box 13.2). The GEF reports should also include information on "how the Resource Allocation Framework is likely to affect funding available to developing countries for the implementation of their commitments under the Convention".

Box 13.2: The GEF Resource Allocation Framework[123]

As one of the policy recommendations for the Third Replenishment of the GEF, which was finalized in November 2002, the GEF agreed to develop a system for allocating resources to countries based on the ability to deliver global environmental benefits and performance. In September 2005, the GEF Council adopted the Resource Allocation Framework (RAF), a new system for allocating resources to increase the impact of GEF funding on the global environment. The RAF allocates resources to a country based on its potential to generate global environmental benefits and its capacity, policies and practices to successfully implement GEF projects. The implementation of the RAF began in July 2006 and applies to resources for financing biodiversity and climate change projects. In this context, it should be noted that the RAF will be applied only to climate change funding made available through either the Least Developed Countries Fund (LDCF) or the Special Climate Change Fund (SCCF).

The allocations will be adjusted every two years to reflect changes in each country's capacity and potential to deliver global environmental benefits. Each country will work with the GEF implementing and executing agencies to develop project proposals to be financed.

The Council has expanded support for GEF to develop national focal points and national capacity to assist countries to better understand and make use of the RAF approach. Two new initiatives – Country Support Programme (CSP) for focal points and the GEF National Dialogue Initiative, which are expected to provide opportunities for stakeholders to seek clarification and provide feedback about the RAF.2006 – were organized by the GEF to explain the RAF and its operational aspects to all countries.

Operational experience with the RAF will be reviewed by the GEF Evaluation Office, which is an independent office, after two years of implementation.

122 FCCC/SBI/2004/10, paras 34-39 <http://unfccc.int/resource/docs/2004/sbi/10.pdf>.
123 See <http://thegef.org/Operational_Policies/Resource_Allocation_Framework.html>.

Annex II Parties have to indicate in their national communications what new and additional financial resources they have provided. They also have to clarify how they have determined that such resources are indeed new and additional (see chapter 18). COP 7 (October–November 2001) required that Annex II Parties should report annually on their financial contributions (decision 7/CP.7) and that the COP should review these reports on annual basis.

Decision 7/CP.7 reaffirmed the need for predictable and adequate levels of funding to non-Annex I Parties, and requested Annex II Parties, as well as other Annex I Parties in a position to do so, to provide funding for developing country Parties through:

- increased GEF replenishment;
- the SCCF which was established under the decision 7/CP.7;
- the LDC Fund which was established under the decision 7/CP.7;
- bilateral and multilateral sources.

Decision 7/CP.7 further stipulated that appropriate ways of sharing the burden among Annex II Parties should be developed.

It also welcomed statements made by most Annex II Parties during the second part of COP 6 (July 2001) on their willingness to provide funding, including the declaration by a number of Annex II Parties that they would collectively contribute US$410 million (€ 450 million) per year by 2005, with this level to be reviewed in 2008[124].

Relevant COP decisions:

Decision 9/CP.1:	Maintenance of the interim arrangements referred to in Article 21, paragraph 3, of the Convention
Decision 10/CP.1:	Arrangements between the Conference of the Parties and the operating entity or entities of the financial mechanism
Decision 12/CP.2:	Memorandum of Understanding between the Conference of the Parties and the Council of the Global Environment Facility, and Annex: Memorandum of Understanding between the Conference of the Parties to the United Nations Framework Convention on Climate Change and the Council of the Global Environment Facility
Decision 13/CP.2:	Memorandum of Understanding between the Conference of the Parties and the Council of the Global Environment Facility: Annex on the determination of funding necessary and available for the implementation of the Convention[125]

124 Joint Political Declaration by the European Community and its Member States, together with Canada, Iceland, New Zealand, Norway and Switzerland. See FCCC/CP/2001/Misc.4 <http://unfccc.int/resource/docs/cop7/misc04.pdf>.

125 The Annex itself can be found as part of decision 1/SBI 4, included in FCCC/SBI/1996/14 <http://unfccc.int/resource/docs/1996/sbi/14.pdf>.<http://unfccc.int/resource/docs/cop7/misc04.pdf>.

Decision 11/CP.3:	Review of the financial mechanism
Decision 12/CP.3:	Annex to the Memorandum of Understanding on the determination of funding necessary and available for the implementation of the Convention
Decision 3/CP.4:	Review of the financial mechanism, including Annex: Guidelines for the review of the financial mechanism
Decision 7/CP.7:	Funding under the Convention
Decision 5/CP.8:	Review of the financial mechanism
Decision 9/CP.10:	Assessment of funding to assist developing countries in fulfilling their commitments under the Convention
Decision 5/CP.11:	Further guidance to an operating entity of the financial mechanism

Annual reports of the GEF to the COP:
FCCC/CP/1995/4
FCCC/CP/1996/8
FCCC/CP/1997/3
FCCC/CP/1998/12 and Add. 1
FCCC/CP/1999/3
FCCC/CP/2000/3 and Add. 1 (part 1 and part 2)
FCCC/CP/2001/8
FCCC/CP/2002/4
FCCC/CP/2003/3
FCCC/CP/2004/6
FCCC/CP//2005/3 and Corr. 1

13.B. COP guidance to the GEF

The COP has regularly given guidance to the GEF on the operation of the financial mechanism. This has been provided in the form of decisions explicitly titled “Guidance to the operating entity of the financial mechanism”. Guidance is also found in decisions addressing thematic areas of work, such as national communications from non-Annex I Parties, implementation of Article 4.8 and 4.9, capacity-building or technology transfer. In the following eight sections, guidance provided to the GEF by the COP is summarized by specific topic.

13.B.1. General guidance on funding policies

An important principle is that projects funded through the financial mechanism “should be country-driven and in conformity with, and supportive of, the national development priorities of each country” (decision 11/CP.1). In line with this, the COP advised the GEF that the use of national and regional experts or consultants would be preferable in the development and implementation of projects (decisions 2/CP.4, 6/CP.7). The COP also asked the GEF to support a country-team approach to increase national commitment to implementing the objective of the Convention. In 2002 COP 8 invited the GEF to promote consistency of its activities with national priorities and to integrate them into national planning frameworks, such as national sustainable development strategies and poverty reduction strategies (decision 5/CP.8).

Responding to the concerns of developing countries, COP 4 (November 1998) and COP 7 (October–November 2001) invited the GEF to simplify and expedite its procedures for approving and implementing projects, including disbursing funds (decisions 2/CP.4, 6/CP.7). The same COP decisions also encouraged the GEF to streamline its project cycle with a view to making project preparation simpler and more transparent. COP 8, in decision 5/CP.8, invited the GEF to continue its efforts to increase its administrative efficiency and cost-effectiveness. COP 10 similarly invited the GEF to work for further improvements in these areas[126].

The COP stressed that the application of the concept of agreed incremental costs should be transparent, flexible and pragmatic (decisions 11/CP.1, 11/CP.2, 2/CP.4, 5/CP.8). At COP 8, the GEF was invited to continue to make the concept of agreed incremental costs and global benefits more understandable.

The responses from the GEF on how it has followed the guidance of the COP are detailed in its annual reports to the COPs.

13.B.2. Funding for national programmes

COP 1 stated that the GEF should finance the formulation of "nationally determined programmes to address climate change issues which are in accordance with national development priorities and which should, as far as possible, be comprehensive". This includes financing "capacity-building and all other activities related to the formulation, management and regular updating of these programmes". The GEF should also be available to assist in the implementation of these national programmes, including supporting agreed mitigation activities (decision 11/CP.1). COP 4, in its decision 2/CP.4, stated that the GEF should assist developing countries with studies leading to the preparation of national programmes to address climate change, compatible with national plans for sustainable development.

13.B.3. Funding for adaptation

Adaptation to the adverse effects of climate change has been an increasingly important area of funding under the Convention (see chapter 12). COP 1, in decision 11/CP.1, distinguished three different stages for adaptation activities and their financing:

- Stage I: a planning stage which includes studies to identify particularly vulnerable countries or regions and policy options, and appropriate capacity-building;
- Stage II: measures, including further capacity-building, which may be taken to prepare for adaptation, as envisaged by Article 4.1(e), which provides for drawing up plans, such as integrated plans for coastal zone management, water resources and agriculture; and
- Stage III: measures to facilitate adequate adaptation, including insurance.

126 FCCC/CP/2004/10, Annex III <http://unfccc.int/resource/docs/cop10/10.pdf>.

COP 1 called on the GEF to meet the agreed full costs of Stage I activities undertaken in the context of preparing national communications (decision 11/CP1).

COP 4, with decision 2/CP.4, asked the GEF to fund adaptation activities under Stage II in particularly vulnerable countries and regions identified in Stage I. The Marrakesh Accords adopted at COP 7 considerably expanded the scope of funding for adaptation. This expansion included establishing three new funds, for all of which adaptation is an important aspect (see 13.C.2).

By decisions 5/CP.7 and 6/CP.7, COP 7 provided a list of adaptation-related activities to be funded by the GEF, in particular in LDCs and SIDS, including:

- strengthening the implementation of stage II adaptation activities;
- supporting enabling activities for assessments of vulnerability and adaptation;
- enhancing capacity to integrate adaptation into sustainable development programmes;
- promoting the transfer of adaptation technologies;
- establishing pilot or demonstration projects in adaptation planning[127];
- supporting capacity-building for preventive measures, planning and preparedness for disasters related to climate change;
- strengthening existing early warning systems for extreme weather events or establishing new ones.

COP 10 asked the GEF to make further resources available to implement these actions. Within the Buenos Aires programme of work on adaptation and response measures (1/CP.10), COP 10 also set out a new list of activities that contributed to the implementation of decision 5/CP.7 on the effects of response measures (see chapter 12). COP 10 also called on the GEF to report on its support to these activities at subsequent COP sessions. Furthermore, decision 8/CP.10 specifically asked the GEF to report on barriers, obstacles and opportunities that emerged in funding the activities identified in decision 1/CP.10. Decision 8/CP.10 also asked the GEF to expand support to non-Annex I Parties drawing up adaptation strategies as part of their national communication process. In addition, COP 10 invited the GEF to ensure adequate allocation of resources to implementing adaptation activities[128].

13.B.4. Funding for technology transfer

COP 4, in decision 2/CP.4, asked the GEF to provide funding, as a first step, to enable developing country Parties to identify and submit their priority technology needs to the COP. Following the adoption of the *Framework for meaningful and effective actions to enhance the implementation of Article 4, paragraph 5, of the Convention* (Annex to decision 4/CP.7; see chapter 14) at COP 7, COP 8 asked the GEF to provide financial support for its implementation through its climate change focal area (i.e. from the GEF Trust

127 In response to this guidance, the GRF established a $ 50 million pilot in the climate change focal area: "Piloting an Operational Approach to Adaptation (SPA)"

128 FCCC/CP/2004/10, Annex III <http://unfccc.int/resource/docs/cop10/10.pdf>.

Fund) and the newly established SCCF (decision 6/CP.8). COP 9 directed its requests towards support for enabling activities for assessments of technology needs (decision 4/CP9).

13.B.5. Funding to address the impacts of response measures

COP 7, in the Marrakesh Accords, also addressed funding for the specific needs of countries with economies highly dependent on fossil fuels (Article 4.8(h); see also chapter 12).

The SCCF, established by decision 7/CP.7, aims to support activities to assist developing country Parties referred to under Article 4.8(h), in diversifying their economies as well as promoting adaptation activities, technology transfer and specified sectors (energy, transport, industry, agriculture, forestry and waste management). Although the COP has provided further guidance on this fund on adaptation and transfer of technologies (decision 5/CP.9), Parties have not yet agreed on detailed guidance on economic diversification.

Decision 5/CP.7 provided a list of related activities to be supported through the GEF Trust Fund, the SCFF, and other bilateral and multilateral sources. These activities cover:

- promoting investment for economic diversification;
- developing and transferring more climate-friendly technologies, such as non-energy uses of fossil fuels, advanced fossil fuel technologies and carbon capture or storage;
- expanding climate-friendly energy sources such as natural gas or biofuels; and
- building capacity.

By decisions 1/CP.10 and 8/CP.10, COP 10 invited the GEF to report to COP 12 in 2006 on the support it had provided for activities outlined in decision 5/CP.7, with a view to adopting a decision on further action at COP 13.

13.B.6.Funding to improve public awareness and education

COP 1 stated that emphasis “should also be placed on improving national public awareness and education on climate change and response measures” (decision 11/CP.1), which is addressed in Article 6 of the Convention. This was reaffirmed by COP 4 (decision 2/CP.4), COP 7 (decision 6/CP.7), which also mentioned community involvement and participation in climate change issues, and COP 9 (decision 4/CP.9). The issue was particularly highlighted at COP 8, with the adoption of the New Delhi work programme on Article 6 of the Convention (decision 11/CP.8; see chapter 16). Accordingly, decision 6/CP.8 asked the GEF to provide financial resources to non-Annex I Parties, in particular LDCs and SIDS, to support the implementation of this programme. By decisions 7/CP.10 and 8/CP.10, COP 10 urged the GEF to continue improving access to opportunities for funding activities related to Article 6, and to increase their visibility. The GEF was also requested to provide information on Article 6 activities in its regular reports to the COP. SBI 23 noted that the financial resources made available through various means for implementing the New Delhi programme were not commensurate with the needs and concerns identified by Parties. It therefore urged the GEF, among others, to continue to support financially the implementation of activities relating to Article 6[129].

13.B.7. Funding for capacity-building

Guidance has always stressed the need to build capacity of developing countries to implement the Convention and cope with climate change. Guidance on capacity-building evolved from focus on capacity to prepare national communications (decisions 1/CP.11 and 11/CP.2) to more detailed guidance relating to other areas, such as systematic observation, technology transfer (decision 2/CP.4). By its decisions 10/CP.5 and 11/CP.5, the COP launched a process to address capacity-building in an integrated manner, resulting in frameworks for capacity-building being agreed at COP 7 for developing countries and countries with economies in transition (EITs) (decisions 2/CP.7 and 3/CP.7, respectively). The GEF was requested to provide financial support to activities outlined in these frameworks and to report on them. These requests were reiterated in decisions 6/CP.8 and 4/CP.9.

A first comprehensive review of these frameworks was completed at COP 10, which identified key factors that should be taken into account to increase effectiveness (decisions 2/CP.10 and 3/CP.10). The GEF was requested to take into account these key factors when supporting capacity-building activities in developing countries. The COP also asked the secretariat to disseminate, in cooperation with the GEF and its implementing agencies, an information document on best practices and lessons learned in capacity-building projects and programmes and to publish it on the UNFCCC web site. A second comprehensive review is planned in 2007 for EITs and in 2008 for developing countries.

At COP 10, the UNFCCC secretariat was also requested to prepare a synthesis report on the steps to be taken to monitor capacity-building activities in developing countries (pursuant to decision 2/CP.7). The report should suggest steps for monitoring that would contribute to the second comprehensive review of the capacity-building framework for developing countries in 2008. The monitoring of this framework will take into consideration the work of the GEF and its implementing agencies on performance indicators for the climate change focal area, and will also take into account the GEF monitoring and evaluation work in general.

13.B.8. Funding for preparation of national communications by non-Annex I Parties

The GEF is expected to fund the agreed full costs for the preparation of non-Annex I Parties' initial and subsequent national communications (see chapter 18) according to the guidelines and the format adopted by the COP[130], which have also to serve as policy guidance for the GEF (decisions 11/CP.2, 6/CP.7,

129 FCCC/SBI/2005/23, para 74 <http://unfccc.int/resource/docs/2005/sbi/eng/23.pdf>.

130 The first guidelines (not applicable anymore) were contained in the annex to decisions 10/CP.2. New guidelines were developed at COP 8 and are contained in the annex to decision 17/CP.8.

6/CP.8). Decision 11/CP.2 at COP 2 (July 1996) requested that the GEF "expedite the approval and the disbursement of financial resources to meet the agreed full costs incurred by the developing country Parties … in particular for the initial and subsequent preparation of national communications of non-Annex I Parties". According to decision 2/CP.4 funding is to be provided to translate, reproduce, disseminate and make available initial national communications electronically. In decision 4/CP.9, COP 9 asked the GEF to closely monitor the performance of the global project to support the preparation of national communications, including its effectiveness and efficiency.

COP decisions providing guidance to the GEF:[131]

Decision 11/CP.1:	Initial guidance on policies, programme priorities and eligibility criteria to the operating entity or entities of the financial mechanism
Decision 12/CP.1:	Report of the Global Environment Facility to the Conference of the Parties on the development of an operational strategy and on initial activities in the field of climate change
Decision 10/CP.2:	Communications from Parties not included in Annex I to the Convention
Decision 11/CP.2:	Guidance to the Global Environment Facility
Decision 2/CP.4:	Additional guidance to the operating entity of the financial mechanism
Decision 8/CP.5:	Other matters related to communications from non-Annex I Parties
Decision 10/CP.5:	Capacity-building in developing countries (non-Annex I Parties)
Decision 2/CP.7:	Capacity-building in developing countries (non-Annex I Parties)
Decision 4/CP.7:	Development and transfer of technologies
Decision 3/CP.7:	Capacity-building in countries with economies in transition
Decision 5/CP.7:	Implementation of Article 4, paragraph 8 and 9, of the Convention
Decision 6/CP.7:	Additional guidance to an operating entity of the financial mechanism
Decision 5/CP.8:	Review of the financial mechanism
Decision 6/CP.8:	Additional guidance to an operating entity of the financial mechanism
Decision 11/.CP.8:	New Delhi work programme on Article 6 of the Convention
Decision 17/CP.8:	Guidelines for the preparation of national communications from Parties not included in Annex I to the Convention
Decision 3/CP.9:	Report of the Global Environment Facility to the Conference of the Parties

131 Decisions relating to institutional arrangements with the GEF can be found in section 13.A above. Decisions covering the newly established funds are given in the relevant sections under 13.C.2 below.

Decision 4/CP.9:	Additional guidance to an operating entity of the financial mechanism
Decision 2/CP.10:	Capacity-building for developing countries (Non-Annex I Parties)
Decision 8/CP.10:	Additional guidance to an operating entity of the financial mechanism
Decision 5/CP.11:	Further guidance to an operating entity of the financial mechanism

13.C. Sources of funding

Funding by the GEF through the financial mechanism has been provided from the GEF Trust Fund, which also operates in areas other than climate change (see section 13.C.1).

In 2001, COP 7 established three additional funds to be operated by the GEF, known as the Marrakesh funds. They are:

- the SCCF, under the Convention (see section 13.C.2.a);
- the LDC Fund, under the Convention (see section 13.C.2.b); and
- the Adaptation Fund, under the Kyoto Protocol (see Box 13.3).

In addition to the financial mechanism operated by the GEF, the Convention also refers to other channels of funding (Art. 11.5; see section 13.C.3).

13.C.1. The GEF Trust Fund

The GEF Trust Fund is the common funding resource for all six focal areas in which the GEF is active. Besides climate change, these are: biodiversity; international waters; protection of the ozone layer; persistent organic pollutants (POPs); and land degradation. The GEF has been designated therefore to operate not only the Convention's financial mechanism, but also those of the CBD, the CCD and the Stockholm Convention on Persistent Organic Pollutants. It also operates in close connection with the Montreal Protocol and various regional and international water agreements.

The GEF Trust fund was established in 1994, and succeeded the Global Environment Trust Fund (GET) of the pilot phase (1991–1994). The World

Table 13.1: Pledged resource levels of the GEF Trust Fund[132]

	Period	Billion US$
Pilot phase	1991–1994	0.86
1st Replenishment	1995–1998	2
2nd Replenishment	1998–2002	2.75
3rd Replenishment	2002–2006	3

132 FCCC/SBI/2004/18 <http://unfccc.int/resource/docs/2004/sbi/18.pdf>. It should be noted that the total received by the GEF Trust Fund was less than the total pledged.

Table 13.2: GEF Trust Fund allocations on Climate Change

GEF Phase	US$ millions
Pilot phase	280.6
GEF I	507.0
GEF 2	667.2
GEF 3	600.7
TOTAL	2055.5

Source: GEF secretariat.

Bank is Trustee of the GEF Trust Fund. Donor nations commit money every four years through a process called GEF replenishment. The Trust Fund has had four replenishments (see Table 13.1) so far.

GEF assistance takes the form of projects conducted by the three GEF implementing agencies: UNEP, the UNDP, and the World Bank. Since 1999, the GEF has also expanded opportunities for so-called “Executing Agencies” (in particular Regional Development Banks (RDBs)) to implement projects.

Since 1991, the GEF has committed approximately US$1.98 billion in grants from its Trust Fund to climate change activities (as of August 2005). During the same period, it has leveraged an additional amount of more than US$10.4 billion through co-financing from bilateral agencies, recipient countries and the private sector. Co-financing of GEF projects thus exceeded GEF’s own funding by a factor of more than five.

13.C.1.a. Programme categories, operational programmes and strategic priorities

The GEF’s Operational Strategy[133] of 1995 formulates basic operational principles and strategic considerations. It also defines three broad, interrelated programme categories relevant to all focal areas, and lays down initial operational strategies for each focal area. A new operational strategy is being written in order to reflect the addition of two new focal areas (persistent organic pollutants, and land degradation) which the GEF Assembly approved in 2002.

Each GEF-funded project falls under one of the three programme categories:

- operational programmes;
- enabling activities; and
- short-term response measures.

Operational programmes (OPs) are long-term frameworks for the design, implementation, and coordination of a set of projects, which are specific to each focal area. Currently 4 of 15 OPs lie within climate change (see Box 13.3). Another one, OP12 on integrated ecosystem management, which was established in 1999, is a multi-focal area programme that addresses climate change, among other issues. Its aims are to support comprehensive ecosystem management interventions that integrate ecological, economic and social goals. This may include, for instance, activities that conserve biological diversity and, at the same time, increase the storage of GHGs in ecosystems.

Enabling Activities (EAs), as defined in the Operational Strategy, “are a means of fulfilling essential communication requirements to a Convention, provide a

133 <http://thegef.org/Operational_Policies/Operational_Strategy/op_stat/op_stat.html>.

Box 13.3: GEF operational programmes in the climate change focal area

OP 5: Removal of barriers to energy efficiency and energy conservation. The purpose is to remove barriers to the large-scale application of energy-efficient technologies and to promote more efficient energy use to reduce GHG emissions. Such measures include promoting demand-side management and strengthening administrative capacities. The programme applies to activities that will be self-sustaining once barriers have been identified and removed. Examples include the improvement of energy efficiency in public services, industry and buildings, the promotion of energy-efficient lighting products and household appliances, and the development of strategies to increase overall efficiency.

OP 6: Promoting the adoption of renewable energy and reducing implementation costs. The purpose is to remove barriers to the use of commercial or near-commercial renewable energy technologies, and to reduce the high costs of implementing renewable energy technologies. High costs result from lack of practical experience, initial low-volume markets or dispersed application. Projects under this category include photovoltaics, biomass, methane recovery from waste, wind power, small-scale hydropower, and geothermal energy.

OP 7: Reducing the long-term costs of low greenhouse gas emitting energy technologies. The purpose is to reduce the cost of technologies that have not yet become widespread least-cost alternatives. By promoting the application of specified technologies through learning and economies of scale, the costs of manufacture will become commercially competitive. The programme therefore applies to technologies where costs are expected to drop greatly with economies of scale. Examples are solar-thermal power generation, advanced biomass power and fuel technologies, fuel cells, and advanced fossil fuel technologies.

OP 11: Promoting environmentally sustainable transport. OP 11 was added in 1999 to promote a long-term shift towards sustainable transport with low emissions. The initial focus is on ground transport such as more efficient and less polluting forms of public and freight transport, non-motorized transport, vehicles operated by fuel-cell or battery, internal combustion engine-electric hybrid buses and advanced technologies for converting biomass feedstock into liquid fuels. Projects funded also include urban transport plans which encompass, for example, improvements in public transport and cycling opportunities, land-use policies that generate low levels of transport and enhanced planning coordination.

basic and essential level of information to enable policy and strategic decisions to be made, or assist planning that identifies priority activities within a country". They include preparation of information on "inventories, compilation of information, policy analysis, and strategies and action plans". EAs "will normally qualify for full cost funding when they are directly related to agreed global environmental benefits and consistent with the Convention's guidance". Under the Convention, agreed full cost funding is provided for developing country Parties' activities linked to their national communications (Article 4.3). The GEF has established several options for expedited funding of EAs on a basis of agreed full costs (see section 13.C.1.b).

Short-term response measures are projects that do not fit into either of the other two categories, but are considered high priority and expected to yield short-term benefits at low costs (less than $10/ton of carbon equivalent avoided). They include projects aimed solely at reducing the net emissions of GHGs.

In 2003, the GEF introduced "strategic priorities" for each focal area. They do not replace the existing OPs but are an additional category to ensure a more focused allocation of funding. Since then project proposals submitted to the GEF have been required to match one of the strategic priorities, in addition to an OP or one of the two other programme categories. The introduction of strategic priorities was part of the new strategic business planning approach that was first applied in the *GEF Business Plan for the Financial Years 2004–2006*[134].

The strategic priorities in climate change are:

- promoting energy-efficient buildings and appliances;
- promoting industrial energy efficiency;
- promoting retrofitting of power plants;
- promoting grid electricity from renewable sources;
- promoting renewable energy for rural energy services;
- supporting the development of new, low-GHG-emitting energy technologies;
- facilitating sustainable mobility in urban areas;
- piloting a strategic approach to adaptation.

In addition to these priorities, cross-cutting strategic priorities are also relevant. These are:

- capacity-building (including EAs);
- integrated ecosystem management, a multi-focal area programme; and
- the Small Grants Programme (see section 13.C.1.b).

13.C.1.b. Funding options[135]

Proposals for projects to be funded by the GEF can be submitted by governments, national institutions, local communities, academic institutions, international organizations, NGOs and private sector entities. They have to be endorsed by the GEF Operational Focal Point, a government official responsible for GEF activities within their country. There are two types of focal points: political focal points are responsible for governance issues and policies, and communications with their constituencies; operational focal points are responsible for programme coordination of GEF projects and other operational activities within the country. While all member countries have political focal points, only countries eligible for GEF funding are expected to designate operational focal points.

Full-Size Projects (FSPs) go through each step of the GEF project cycle: concept development, preparation, appraisal, approval and implementation supervision, and closing and evaluation. FSPs typically take 12–18 months to develop, while their implementation usually runs from three to six years.

FSPs need approval by the GEF Council. To be eligible, the project must satisfy the requirements of a strategic priority (see section 13.C.1.a above), and must

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134 See *GEF Business Plan FY04-06*, GEF/C.21/9. <http://thegef.org/Documents/Council_Documents/GEF_C21/C.21.9_GEF_Business_Plan_FY04-06.pdf>, and *Strategic Business Planning: Direction and Targets*, GEF/C.21/Inf.11, April 2003. <http://thegef.org/Documents/Council_Documents/GEF_C21/C21.Inf.11-_Strategic_Business_Planning.pdf>.

135 An overview of current funding modalities is provided in: *GEF Project Cycle: An Update* GEF/C.22/INf.9, and Annexes, available on <http://thegef.org/Documents/Council_Documents/council_documents.html>.

fit into either an OP or the category of short-term response measures. EAs over a certain volume (see below) are also treated as FSPs.

In addition to FSPs, the GEF has established several types of funding options under expedited procedures, subject to specific financial ceilings:

- Medium-sized Projects;
- Enabling Activities; and
- the Small Grants Programme.

Medium-sized Projects were introduced in 1996. The ceiling for the GEF grant is US$ 1 million. The project should also satisfy the requirements of a strategic priority and either an operational programme or short-term response measures. Project approval has been delegated by the GEF Council to the GEF CEO.

EAs include support for the preparation of national inventories and communications, strategies, and action plans. For climate change, three types of projects can currently be processed under expedited procedures, with approval by the CEO. Project proposals exceeding the ceiling are processed as FSPs. Apart from the preparation of NAPAs, which is funded from the LDC Fund (section 13.2.b), these types of projects are:

- National communications from non-Annex I Parties (see chapter 18.D), which are eligible for funding up to a ceiling of US$405,000 per country plus an additional US$15,000 per country for self-assessment in preparation for the project proposal[136]; and
- National capacity needs self-assessments (NCSAs; see chapter 17.C), which are eligible for funding up to a ceiling of US$200,000[137].

The Small Grants Programme (SGP), launched in 1992, offers grants up to US$50,000 for measures that represent local contributions to the preservation of the global environment. SGP activities must fit into one of the GEF OPs. Projects are selected nationally and do not require Council approval. The SGP is managed solely by the UNDP, not by the other implementing agencies[138]. During the reporting period 2004–2005, the SGP supported 174 community-based climate change projects totalling some US$4.59 million in GEF financing, matched with US$4.61 million of co-financing for a total value of US$9.20million[139].

In addition, the GEF often provides financing to assist countries to develop a project concept into a project proposal. Funding for project preparation is

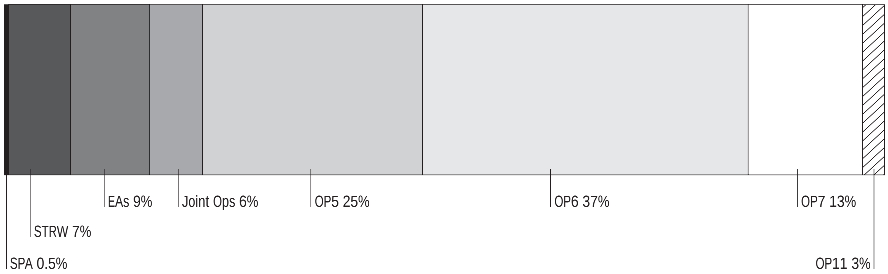
136 *Operational Procedures for the Expedited Financing of National Communications from Non-Annex I Parties.* GEF/C.22/Inf.16 <http://thegef.org/Documents/C.21.Inf.16_Expediting_Financing_of_National_CommunicationsFINAL.doc>, November 2003.

137 *Operational Guidelines for Expedited Funding of National Self Assessments of Capacity Building Needs*, <http://www.gefweb.org/Documents/enabling_activity_projects/documents/Operational_Guidelines_-_English.pdf>, September 2001.

138 For further information, see <http://sgp.undp.org>.

139 See para 12 of FCCC/CP/2005/3 <http://unfccc.int/resource/docs/2005/cop11/eng/03.pdf>.

Figure 13.1: Relative allocations between different GEF Trust Fund programmes



Source: GEF secretariat
Note: EAs = Enabling activities, SPA = Strategic Priority on Adaptation, STRM = short-term response measures, OP5 = energy efficiency, OP6 = renewable energy, OP7 = low-GHG-emitting energy technologies, OP11 = sustainable transport, Joint Ops = Joint operational programmes.

available in three categories or "blocks". This is managed through the **Project Preparation and Development Facility** (PDF). While Block A grants can be provided for the preparation of both full- and medium-sized projects, Block B and C grants are only available for full-sized projects. **Block A grants** (up to US$25,000) fund the very early stages of project or programme identification, and are approved through GEF's implementing agencies. **Block B grants** (up to US$350,000 for single-country projects and up to US$700,000 for multiple-country projects) fund information gathering necessary to complete project proposals and provide necessary supporting documentation. These grants are approved by the GEF CEO. **Block C grants** (up to US$1 million) are provided in exceptional cases of larger projects, where a proposal has already been approved by the GEF Council but additional financing is required to complete technical design and feasibility work.

13.C.2. The Marrakesh Funds

As noted in section 13.C, the Marrakesh Accords established three new funds: the **SCCF** and the **LDC Fund**, both under the Convention, and the **Adaptation Fund (AF)**, under the Kyoto Protocol.

The SCCF and the LDC Fund are managed by the GEF, as an entity operating the financial mechanism of the Convention. They are expected to operate independently of the GEF Trust Fund. The World Bank will be the Trustee of the two funds. The operational policies, procedures and governance structure of the GEF will apply to the operation of the two funds, unless the COP determines that other arrangements should be made[140].

Parties are still negotiating how to put the Adaptation Fund into operation, including how to manage it. A decision is expected by COP/MOP 2 (November 2006).

140 Arrangements for the Establishment of the New Climate Change Funds. GEF/C.19/6. <http://thegef.org/Documents/Council_Documents/GEF_C19/gef_c19.html>.

13.C.2.a. Special Climate Change Fund

The SCCF has the objective of financing activities complementary to those funded within the GEF's climate change focal area and by bilateral and multilateral funding. In its decision (7/CP7), COP 7 determined that the SCCF should serve as a catalyst to leverage additional resources from bilateral and other multilateral sources. It designated four areas of action:

- adaptation[141];
- transfer of technologies[142];
- energy, transport, industry, agriculture, forestry and waste management; and
- activities to assist those developing country Parties that depend greatly on fossil fuels in diversifying their economies[143].

COP 9 decided that adaptation activities were to have top priority for funding and that technology transfer and associated capacity-building should be the other essential area for the SCCF (decision 5/CP.9). COP 9 did not develop the other two areas of action but launched a further consultation process. Following guidance from COP 9 on the SCCF, the GEF Council approved a programme outlining plans for using SCCF resources[144].

COP 9 reaffirmed the relevant provisions of decision 5/CP.7 on the funding of adaptation activities, in decision 5/CP.9. This included support for:

- prompt implementation of adaptation activities in areas such as water resources management; land management; agriculture; infrastructure development; fragile ecosystems; and integrated coastal zone management;
- monitoring, related forecasting and the development of early warning systems to improve the control and prevention of disease related to climate change;
- capacity-building to address disasters related to climate change, including contingency planning and preparedness; and
- national and regional centres and information networks for rapid response to extreme weather events.

The same decision outlined the following priority areas for technology transfer activities, in accordance with decision 4/CP.7:

- implementation of the results of technology needs assessments;
- technology information;
- capacity-building;

141 In accordance with paragraph 8 of Decision 5/CP.7, which outlines types of adaptation-related activities to be funded by the SCCF and/or the Adaptation Fund.

142 In accordance with Decision 4/CP.7.

143 With reference to Article 4.8(h) and in accordance with Decision 5/CP.7 (with particular relevance of part III "Impact of the implementation of response measures").

144 Programming to implement the guidance for the SCCF adopted by the COP to the UNFCCC at its ninth session GEF/C.24/12 <http://thegef.org/Documents/Council_Documents/GEF_C24/gef_c24.html>.

- enabling environments.

By the same decision, COP 9 invited the GEF to mobilize resources to put the fund into operation without delay.

In 2004, COP 10 welcomed the outcome of the first pledging meeting of potential donors to the SCCF; nine donors had pledged a total of US$34.6 million, of which US$33 million were allocated to adaptation. It urged the GEF to continue its efforts to mobilize additional resources to support the implementation of eligible activities under the SCCF, while continuing to ensure financial separation between the SCCF and the other funds it operated. The Parties could not reach agreement on additional guidance to the GEF for the operation of the SCCF at COP 10. As the discussion on this item was not concluded either at SBI 22 (May 2005) or at SBI 23 (November–December 2005), it was to be further discussed at SBI 24 (May 2006).

As of June 2006, the total receipts to the SCCF amounted to US$36.7 million, of which the GEF Council earmarked US$34 million for adaptation and US$2.7 million for technology transfer[145].

Relevant COP decisions:

Decision 4/CP.7:	Development and transfer of technologies (decisions 4/CP.4 and 9/CP.5)
Decision 5/CP.7:	Implementation of Article 4, paragraph 8 and 9, of the Convention (decision 3/CP.3 and Article 2, paragraph 3, and Article 3, paragraph 14, of the Kyoto Protocol)
Decision 7/CP.7:	Funding under the Convention
Decision 7/CP.8:	Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Special Climate Change Fund
Decision 5/CP.9:	Further guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Special Climate Change Fund

13.C.2.b. Least Developed Countries Fund

The LDC Fund was established by decisions 5/CP.7 and 7/CP.7 in order to support a special work programme to assist LDCs (see chapter 12). Drawing up NAPAs is part of this programme.

By decision 27/CP.7, COP 7 requested the GEF to use the LDC Fund, as a first step, to meet the agreed full costs of preparing NAPAs. The decision called for simplified, transparent and streamlined procedures for the operation of the fund and arrangements for expedited access to the fund by LDCs. The GEF issued *Operational Guidelines for Expedited Funding for the Preparation of National Adaptation Programmes of Action by Least Developed Countries* in April 2002 to facilitate the implementation of the decision.

145 *Status Report on the Climate Change Funds.* GEF/C.27/9. <http://thegef.org/Documents/Council_Documents/GEF_C27/C.27.9_Status_Report_on_the_Climate_Change_Funds.pdf>, 17 October 2005.

Funding for NAPAs is provided on the basis of full agreed costs under the programme category of EAs. The expedited procedures referred to in the guidelines apply to projects up to US$200,000 per country; projects that exceed this amount are processed according to the standard procedures of the GEF project cycle. Decision 28/CP.7, which anticipated the outcome of this process, stated that the priority activities identified in NAPAs would be made available to the GEF and other sources of funding, so that financial resources could be provided to implement them.

COP 8 asked the GEF to support financially four regional workshops in 2003, which were dedicated to assisting LDCs in their NAPA preparation (decision 8/CP.8). By decision 6/CP.9, COP 9 called on the GEF to support the implementation of NAPAs as soon as possible after their completion and specified the elements to be taken into account when developing operational guidelines for such funding. In 2004, COP 10 welcomed both the support provided for the preparation of NAPAs and the preparations made by the GEF to assist their implementation. However, the COP noted with concern that only one NAPA had so far been completed and invited the GEF, its implementing agencies and LDCs to work closely to expedite the process[146]. COP 11, in its decision 3/CP.11, agreed on provisions to put the LDC Fund into operation to support the implementation of urgent and immediate activities identified in NAPAs. The principles agreed upon were a country-driven approach, the integration of adaptation measures into national strategies for development and poverty reduction, and a learning-by-doing approach. The full cost funding was to be provided to meet the additional costs of adaptation activities as prioritized in NAPAs. The GEF was also requested to develop a co-financing scale for supporting NAPA activities that were not supported through full cost funding. Finally, the decision stated that, given the unique circumstances of LDCs, the operation of the LDC Fund should not set a precedent for other funding arrangements under the Convention. The COP asked the SBI to review the experience gained, in particular in accessing funds from the LDC Fund, at its twenty-sixth session (May 2007) and decided to assess progress in the implementation of this decision in 2008.

In response to the COP mandates a *Programming paper for funding the implementation of NAPAs under the LDC trust fund* was adopted by the GEF Council in June 2006. It was prepared in consultation with relevant constituencies, including through a LDC/GEF workshop organized by the GEF in April 2006 in Dhaka, Bangladesh.

As of June 2006, 13 Annex II countries had contributed to the LDC Fund. The total receipts of the Fund amounted to US$41.8 million. Of this amount, US$11.3 million has been allocated to NAPA preparation. Consequently, net funds available for implementation of projects identified in the NAPAs amount to US$30.5 million. Projects for the preparation of NAPAs have been approved

146 FCCC/CP/2004/10, Annex III <http://unfccc.int/resource/docs/cop10/10.pdf>.

for 44 countries[147]. In addition, new contributions of $45.8 million were pledged at a donor meeting for the LDCF held in Copenhagen, Denmark, in April 2006. The most recent pledge of $12.6 million, was announced by France at the GEF Council meeting in June 2006. This brings the total amount of funds mobilized for the LDCF to over $100 million.

Relevant COP decisions:

Decision 5/CP.7:	Implementation of Article 4, paragraph 8 and 9, of the Convention (decision 3/CP.3 and Article 2, paragraph 3, and Article 3, paragraph 14, of the Kyoto Protocol)
Decision 7/CP.7:	Funding under the Convention
Decision 27/CP.7:	Guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Least Developed Countries Fund
Decision 28/CP.7:	Guidelines for the preparation of national adaptation programmes of action. Establishment of the least developed countries expert group

Box 13.4: Adaptation Fund

COP 7, by its decision 10/CP.7, established the Adaptation Fund. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), by its decision 28/CMP.1, confirmed the decision by COP 7 and adopted initial guidance for the operation of the Adaptation Fund as follows:

(a) The Adaptation Fund is to finance:
  - (i) concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol;
  - (ii) activities identified in decision 5/CP.7, paragraph 8.

(b) The operation of the Adaptation Fund shall be guided by:
  - (i) a country-driven approach;
  - (ii) sound financial management and transparency;
  - (iii) separation from other funding sources;
  - (iv) a learning-by-doing approach.

The COP/MOP is to further decide on specific policies, programme priorities and eligibility criteria for the Adaptation Fund at its second session (November 2006). It will also discuss possible arrangements for managing the Fund. In order to assist the COP/MOP in taking this decision, Parties have made submissions and a workshop to promote an exchange of views was held in May 2006 in Edmonton, Alberta, Canada.

The SBI started considering this issue at its twenty-fourth session (May 2005) and agreed on a draft decision on the Adaptation Fund with a view to preparing a recommendation for the COP/MOP at its twenty-fifth meeting.

The Adaptation Fund is to be financed from a share of proceeds (2 per cent) from certified emission reductions (CERs) from CDM project activities and from other sources of funding.

147 *Status Report on the Climate Change Funds.* GEF/C..28/4/Rev.1 <http://thegef.org/Documents/Council_Documents/GEF_C27/C.27.9_Status_Report_on_the_Climate_Change_*Funds.pdf*>*, 17 October 2005.*

Decision 8/CP.8:	Guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Least Developed Countries Fund
Decision 6/CP.9:	Further guidance for the operation of the Least Developed Countries Fund
Decision 3/CP.11:	Further guidance for the operation of the Least Developed Countries Fund

13.C.3. Other sources of funding

Article 11.5 of the Convention states that in addition to the Convention's financial mechanism, the developed country Parties may also provide, and developing country Parties may avail themselves of, financial resources for the implementation of the Convention through bilateral, regional and other multilateral channels. COP decisions have regularly encouraged both donors and recipients to use such funding mechanisms. In addition to regular calls by the COP on multilateral, regional and bilateral channels to support funds and activities to implement the Convention, these sources have also been encouraged to support the needs of LDCs with regard to training in negotiating skills and language (see decision 8/CP.8).

The Reporting Guidelines on National Communications require Annex I Parties to provide any information on any financial resources they have provided to facilitate implementation of the Convention[148]. However, it remains difficult to determine the total amount of funding through the various channels. A study compiled by the OECD Development Assistance Committee (DAC) for the 2002 Johannesburg World Summit on Sustainable Development[149] found that in the years 1998–2000, DAC members had given an annual average of US$ 2.7 billion in bilateral aid for climate change. Such aid represented 7.2 per cent of all DAC members' bilateral ODA commitments. According to the third national communications of Annex II Parties, between 1997 and 1999, they had provided more than US$10.2 billion (apart from their contributions to the GEF) for activities related to climate change in developing countries. Although mitigation received the greatest level of support, the share of adaptation activities increased over that period[150].

Several international financial institutions, such as the World Bank and the regional development banks, have important investment portfolios involving projects in sectors such as energy and carbon sequestration that contribute to the efforts of developing countries to implement the Convention. Between 1990 and 2004, the World Bank approved approximately US$5 billion in loans and credits, and leveraged an additional US$15 billion of financing from various sources, for renewable energy and energy efficiency.

148 FCCC/CP/1999/7 <http://unfccc.int/resource/docs/cop5/07.pdf>. See chapter 18.B.

149 *Aid Targeting the Objectives of the Rio Conventions 1998-2000. A contribution by the DAC Secretariat for the information of participants at the World Summit for Sustainable Development in Johannesburg in August 2002* OECD 2002 <http://www.gm-unccd.org/field/Analyses/OECDaid2.pdf>.

150 FCCC/SBI/2004/18 <http://unfccc.int/resource/docs/2004/sbi/18.pdf>.

Moreover, the African, Asian and Inter-American Development Banks, as well as the European Bank for Reconstruction and Development, increasingly have energy portfolios supporting projects related to renewable and other low-carbon sources of energy, as well as energy efficiency. They are thus contributing to lowering GHG emissions[151].

A range of United Nations organizations and programmes are supporting activities related to climate change in developing countries. These include the UNDP, UNEP, UNIDO, FAO, WHO and WMO. Information provided by these institutions revealed that they possessed adequate technical and institutional capacities to support activities in the areas of mitigation, adaptation, technology transfer and capacity-building, but have very limited core funds at their disposal apart from those provided by the GEF[152].

Other sources of funding in sectors and technologies which need more investment to help mitigate climate risks include private capital flows, particularly foreign direct investment (FDI) from Annex II Parties. However it is not known how much of this FDI truly contributes to mitigate climate change. The magnitude of capital flows involved underscores the importance of the role of other sources of funding, in particular the GEF, in helping leverage larger amounts of private capital into mitigating climate change. With regard to increased private investment to reduce GHG emissions, the CDM offers encouraging perspectives[153].

151 FCCC/SBI/2004/18 <http://unfccc.int/resource/docs/2004/sbi/18.pdf>.
152 FCCC/SBI/2004/18 <http://unfccc.int/resource/docs/2004/sbi/18.pdf>.
153 For updated information, see <http://cdm.unfccc.int/>.