



Global Environment Facility

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Agenda Item 6

STATUS REPORT ON THE CLIMATE CHANGE FUNDS

Recommended Council Decision

Having reviewed GEF/C.27/9, *Status Report of the Climate Change Funds*, the Council approves the allocation of additional budgetary resources from the LDC Fund not to exceed USD 250,000, to pay for the costs of a consultative workshop focusing on NAPA implementation, in the event that such costs cannot be met from other funding sources.

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BACKGROUND

1. The Least Developed Countries Fund for Climate Change (LDCF) and the Special Climate Change Fund (SCCF) were both established by the GEF in accordance with the decisions of the United Nations Framework Convention on Climate Change (UNFCCC)¹. In addition, the COP requested the GEF to make arrangements for the establishment and operation of the adaptation fund, which will finance concrete adaptation projects and programs in developing countries.²
2. As agreed by the Council, the operations and administrative costs incurred in connection with managing the climate change funds are kept separate from those associated with the GEF Trust Fund.
3. At its meeting in June 2005, the GEF Secretariat reported to the Council on the status of both the LDCF and the SCCF in the document *Status Report on the Least Developed Country Fund for Climate Change and the Special Climate Change Fund* (GEF/C.25/4/Rev.1).
4. With respect to the LDCF, the Council welcomed the first completed NAPA from the Islamic Republic of Mauritania and the progress that had been made in financing the preparation of National Adaptation Programs of Action (NAPAs) by the LDC Parties to the UNFCCC.
5. The Council approved an administrative budget to cover the expenses of the GEF Secretariat and the Trustee in administering the LDCF and the SCCF for FY06 and FY07. The Council then requested the GEF Secretariat to keep it and the Conference of the Parties informed of progress made in regard to the LDCF and the SCCF, consistent with UNFCCC guidance³. The Council also requested the GEF Secretariat to bring to its attention adjustments that may be required as experience is gained in financing on-the-ground projects.
6. This paper reports on the current status of the two existing funds and the arrangements under consideration for the new Adaptation Fund. It seeks Council approval for an additional budgetary allocation from the LDCF for meeting the costs of a “NAPA Implementation Workshop” in the event that other sources for funding the workshop cannot be identified.

¹ UNFCCC Decisions 7/CP.7; 6/CP.9; and 5/CP.9

² UNFCCC Decision 10/CP.7.

³ UNFCCC Decision 1/CP.10

LEAST DEVELOPED COUNTRY FUND (LDCF)

Report from the Trustee

7. As of September 29, 2005, twelve donors (Canada, Denmark, Finland, France, Germany, Ireland, Italy, Norway, Netherlands, Spain, Sweden, and Switzerland) have contributed to the LDC Fund. Total receipts of the LDC Fund amount to USDeq. 32.5 million, which is comprised of cash payments amounting to USDeq. 20.9 million, USDeq 10.8 million in the form of a promissory note and investment income of USDeq. 0.7 million. Details of the pledges are found in Annex 1: Status of Pledges of the LDCF.

8. Since the last report to the Council in June 2005, Norway has confirmed its additional contribution in the amount of NOK 5 million by signing a contribution agreement with the Trustee. According to the terms of the agreement, the Trustee expects to receive the payment from Norway in the very near future. Other than from Norway, there were no additional pledges or payments received from any Donor, since the previous Council meeting in June 2005.

9. The Trustee is currently discussing with Denmark an additional contribution to be made to the LDCF.

10. To date, the Council has approved LDC Fund allocations in the amount of USD11.3 million for projects, fees and administrative budgets. Consequently, net funds available for allocation by the Council for the LDC Fund are USDeq. 21.20 million (see Annex 2: Statement of Funding Status). The GEF Trustee also provided a table including cash transfers from the LDC Trust Fund since inception (see Annex 3).

11. Unless otherwise noted, all currency valuations are based on exchange rates as of September 29, 2005. The number does not include 11% fees for the Implementing Agencies.

Report on NAPA Operations under the LDCF

12. As of September 29, 2005, 44 countries have received approval for projects for the preparation of NAPAs. The most recent of these approvals was that of the Solomon Islands' NAPA, which was submitted and endorsed by the GEF on June 16, 2005 (see Table 1). The total approved resources for 44 national NAPAs and two global support projects is USD 9,615, 219.6.

13. In the case of the four remaining eligible LDC countries (Angola, Equatorial Guinea, Myanmar, and Nepal), limited progress has been made despite UNEP's best efforts.

Update on COP Guidance to the GEF on the LDCF

14. At the twenty second session of the UNFCCC Subsidiary Body for Implementation (SBI 22) meeting of the UNFCCC held in May 2005 in Bonn, Germany, the Parties reached an agreement on draft guidance for the operation of the Least Developed Countries Fund (LDCF), to be adopted by the eleventh Conference of the Parties in Montreal, Canada, in December 2005.

Prior to the SBI 22, the GEF actively participated in a two-day consultation session with the Least Developed Countries, under the coordination of the UNFCCC Secretariat.

15. During the SBI 22 meeting, Parties highlighted the importance of an ongoing consultation process among the LDCs, the GEF Secretariat and donor governments. At the meeting's closing, Bangladesh offered to host a meeting to ensure adequate consultations to focus attention on NAPA implementation and to pave the way for further donor contributions to the LDCF. The workshop, proposed for Dhaka, Bangladesh, will be held once a significant number of NAPAs are completed, which is likely to occur in early 2006.

Additional Budgetary Request: LDCF Workshop in Dhaka

16. As highlighted above, a dialogue has been initiated between the GEF, interested donor Parties and the LDCs with respect to implementing NAPAs under the LDCF. The proposed Dhaka workshop is seen as being important to continue this dialogue and to pave the way for NAPA implementation. However, a meaningful discussion can only be held if a significant number of NAPAs are completed. The cost of the workshop has been estimated at USD 250,000. Although bilateral funding is being sought to meet the costs of this workshop, it is recommended that the LDCF be prepared to meet these workshop costs in the event that insufficient additional funding is available from other sources. For this reason, the Council is requested to approve an additional budgetary allocation from the LDCF not to exceed USD 250,000 to meet the costs of this workshop focusing on NAPA implementation.

Special Climate Change Fund (SCCF)

Report from the Trustee

17. Since November 2004, nine donors (Denmark, Finland, Germany, Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom) have pledged to the SCCF. Since the previous Council meeting held in June 2005, Portugal and the United Kingdom have confirmed their pledge to the SCCF by subsequently signing a contribution agreement with the Trustee. Annex 4 (Status of Pledges) provides the details of pledges and payments. The Trustee is working with Denmark and Finland on the contribution agreements.

18. The United Kingdom made its contribution in the form of promissory notes that are encashed in three equal tranches over three years. The first tranche in the amount of GBP 3.33 million was paid in July 2005. The remaining two tranches of GBP 3.33 million each will be encashed in May 2006 and May 2007 according to the agreed schedule. As of the day of this report, the total cash receipts including investment income earned thereon amounts to USD 25.76 million, of which USD 24.66 million is for the Program for Adaptation and USD 1.1 million is for the Program for Transfer of Technology.

19. The Trustee has allocated and transferred out of the SCCF a total amount of USD 289,100 representing the fiscal year 2006 administrative budget for the Trustee and the Secretariat approved by the Council in its June 2005 meeting. To date, the total funds available for Council allocation is USD 25.4 million (see Annex 5: Statement of Funding Status).

Update on COP Guidance to the GEF on the SCCF

20. At the Tenth Session of the Conference of the Parties to the UNFCCC, held in Buenos Aires in December 2004, the COP welcomed the outcome of the first pledging meeting of potential donors to the SCCF, and urged the GEF to continue its efforts to mobilize additional resources to support the implementation of eligible project activities under the Fund. It also noted the concerns of some Parties on the co-financing sliding proportional scale proposed for the SCCF. Discussions are on-going on further guidance related to the SCCF.

21. The first project concepts seeking funding under the SCCF are expected to be submitted for pipeline entry as part of the Pipeline 21 exercise in October 2005.

The Adaptation Fund

22. The GEF, as the financial mechanism of the Convention, has been requested by the COP to operate the Adaptation Fund. In its meeting from May 15-17, 2002, the GEF Council invited the World Bank to serve as trustee of this new fund. The World Bank accepted GEF's request and agreed to establish a Multi-Donor Trust Fund that will be separately accounted for and disbursed in accordance with the decisions of the GEF Council. At the request of the GEF Secretariat, the World Bank has begun to examine options for encashment of the Certified Emissions Reductions (CER's) to be made available under the Clean Development Mechanism (CDM) for the operation of the Adaptation Fund. A mechanism is needed to monetize CERs to optimize the financial resources available to support adaptation activities in a fully transparent manner. Care must be taken to identify and pursue a transparent encashment protocol that will be robust in the context of this new market. As numerous uncertainties shape the current operation of this market, a number of options for CER encashment for the Adaptation Fund are under examination, including the use of an auction format. The Trustee will gather additional information and undertake further analysis in order to ensure that the proposed arrangements will meet the goal identified for the fund. The GEF and the Trustee welcome the suggestions of Council Members as to how this goal might best be accomplished. A paper summarizing the Trustee's proposal will be prepared and submitted for Council review and decision at the June 2006 GEF Council meeting.

ANNEX 1. STATUS OF PLEDGES (LDCF)

Least Developed Countries Fund for Climate Change Status of Pledged Contributions as of Sept 29, 2005

Donor	Currency	Pledged Contributions		
		Total Amount	Amount Paid	Payment Due
Canada	CAD	10,000,000	10,000,000	-
Denmark	DKK	10,400,000	10,400,000	-
Finland	EUR	500,000	500,000	-
France	EUR	850,000	850,000	-
Germany <i>a/</i>	EUR	15,000,000	15,000,000	-
Ireland	EUR	634,869	634,869	-
Italy	USD	1,000,000	1,000,000	-
Netherlands <i>b/</i>	USD	2,100,000	100,000	2,000,000
Norway	NOK	9,000,000	4,000,000	5,000,000
Spain	EUR	420,300	420,300	-
Sweden	SEK	3,000,000	3,000,000	-
Switzerland	CHF	400,000	400,000	-

a / Germany has paid its contribution in the form of a promissory note. To date, the Trustee has encashed EUR 6 million according to an agreed upon encashment schedule. The balance will be encashed in the amount of EUR 3 million each year during December 2005, 2006, and 2007.

b/ The amount due will be paid in two installments of USD 1 million each during December 2005 and 2006.

ANNEX 2. STATEMENT OF FUNDING STATUS (LDCF)

Least Developed Countries Fund for Climate Change Statement of Funding Status as of September 29, 2005			<u>Amount in USD</u>
1. Amount received in the LDC Fund			31,761,540
<i>Cash contributions received</i>	20,944,890		
<i>Promisory note received</i>	10,816,650	a/	
2. Investment Income Earned			719,032 b/
3. Cumulative funds made available for Allocation by the Council (1+2)			32,480,571 c/
4. Cumulative Allocations made by the Council			11,264,089
<i>Allocations made for projects</i>	9,615,219		
<i>Allocations made for IA fees</i>	1,048,191		
<i>Net Allocations made for administrative budgets</i>	600,679	d/	
5. Net Funds available for Allocation by the Council (3 - 4)			21,216,482
<hr/> <p>a/ Represents the USDeq of the value of Germany's outstanding balance of EUR 9 million on its promissory note. It is valued on the basis of September 29, 2005 exchange rates.</p> <p>b/ Investment income includes unrealized gains/losses based on mark-to-market valuation of investments.</p> <p>c/ Cumulative funds available for allocation by the Council do not include the outstanding amount due from The Netherlands and Norway as shown in Annex 1.</p> <p>d/ Net of underspent administration budget from the GEFSEC for fiscal years 2003, 2004 and 2005.</p>			

ANNEX 3. CASH TRANSFERS FROM THE LDC TRUST FUND SINCE INCEPTION

Cash Transfers from the LDC trust fund since Inception to 09/23/2005

	<u>Projects (US \$)</u>	<u>Fees (US \$)</u>	<u>Total (US \$)</u>
IBRD	400,000	44,000	444,000
UNDP	5,805,007	698,990	6,503,997
UNEP	2,574,555	283,201	2,857,756
Total for IAs	8,779,562	1,026,191	9,805,753
GEFSEC- Admin Budget			273,479
Trustee - Admin Budget			327,200
Total			10,406,432

ANNEX 4. STATUS OF PLEDGES (SCCF)

Special Climate Change Fund Status of Pledged Contributions as of September 29, 2005				
Pledged Contributions <i>a/</i>				
Donor	Currency	Total Amount	Amount Paid	Payment Due
Denmark <i>b/</i>	DKK	15,000,000	-	-
Finland <i>b/</i>	EUR	350,000	-	-
Germany <i>c/</i>	EUR	5,000,000	1,000,000	4,000,000
Netherlands	EUR	2,400,000	2,400,000	0
Norway	NOK	10,000,000	10,000,000	0
Portugal	EUR	190,000	0	190,000
Sweden	SEK	10,000,000	10,000,000	0
Switzerland	CHF	600,000	600,000	0
United Kingdom <i>d/</i>	GBP	10,000,000	10,000,000	-

a/ Pledged contributions are made towards the Programs for Adaptation and for the Transfer of Technology.

b/ Outstanding pledges may still be subject to legislative approval. The Trustee is working with these donors to assist them in finalizing their contribution agreements.

c/ Germany has paid its first installment and intends to pay the balance of its contribution in four equal installments of EUR 1 million each payable in April of each year starting from 2006 through 2009.

d/ Contribution received in the form of promissory note that are encashed in equal amount over three years. First tranche was encashed in July 2005 and the remaining two tranches will be encashed in the amount of GBP 3,333,333 each in May 2006 and May 2007.

ANNEX 5. STATEMENT OF FUNDING STATUS (SCCF)

Special Climate Change Fund Statement of Funding Status <i>a/</i> as of September 29, 2005			<u>Amount in USD</u>
1	<u>Program for Adaptation</u>		
	Cash contributions received	12,734,345	
	Promissory Notes <i>b/</i>	11,774,346	
	Investment income earned <i>c/</i>	<u>155,448</u>	
	Funds available for Allocation by the Council for Adaptation		24,664,140
2	<u>Program for Transfer of Technology</u>		
	Cash contributions received	1,091,570	
	Investment income earned <i>c/</i>	<u>6,923</u>	
	Funds available for Allocation by the Council for Transfer of Technology		1,098,493
3	<u>Cumulative Allocations made by Council</u>		289,100
	Allocations made for administrative budgets	289,100	
	Net funds available for Allocation by the Council for SCCF (1+2-3)		<u><u>25,473,532</u></u>
<i>a/ Funds available for Allocation by the Council do not include outstanding pledges or payments due from donors that have signed a contribution agreement with the Trustee.</i> <i>b/ Represents the value of un-encashed promissory notes valued at exchange rate as of September 29, 2005.</i> <i>c/ Investment income includes unrealized gains/losses based on mark-to-market valuation of investments.</i>			

Table 1. Update on NAPAs: Financing for the Preparation of NAPAs Approved by the GEF

	Country	Implementing Agency	Amount Approved	Date of CEO Approval
1	Afghanistan	UNEP	200,000	5/14/2004
2	Bangladesh	UNDP	200,000	4/17/2003
3	Benin	UNDP	200,000	3/5/2004
4	Bhutan	UNDP	199,000	10/14/2003
5	Burkina Faso	UNDP	200,000	7/17/2003
6	Burundi	UNDP	200,000	5/14/2004
7	Cambodia	UNDP	199,500	12/17/2002
8	Cape Verde	UNDP	200,000	10/10/2003
9	Central African Republic	UNEP	200,000	1/23/2004
10	Chad	UNDP	200,000	4/5/2004
11	Comoros	UNEP	200,000	6/27/2003
12	Congo DR	UNDP	200,000	12/11/2003
13	Djibouti	UNEP	200,000	8/11/2003
14	Eritrea	UNDP	200,000	12/18/2002
15	Ethiopia	UNDP	200,000	4/7/2003
16	Gambia	UNEP	198,100	7/25/2003
17	Guinea	UNDP	200,000	11/3/2003
18	Guinea-Bissau	UNDP	200,000	5/14/2004
19	Haiti	UNEP	198,665	1/27/2003
20	Kiribati	UNDP	200,000	10/27/2003
21	Lao PDR	UNDP	200,000	7/30/2003
22	Lesotho	UNEP	190,000	2/19/2003
23	Liberia	UNEP	200,000	12/22/2003
24	Madagascar	World Bank	200,000	5/14/2004
25	Malawi	UNDP	200,000	3/21/2003
26	Maldives	UNDP	200,000	10/22/2003
27	Mali	UNDP	200,000	12/11/2003
28	Mauritania	UNEP	198,000	1/23/2003
29	Mozambique	UNDP	200,000	4/23/2003
30	Níger	UNDP	200,000	3/31/2004
31	Rwanda	UNEP	195,000	6/9/2004
32	Samoa	UNDP	200,000	12/17/2002
33	Sao Tome and Principe	World Bank	200,000	3/29/2004
34	Senegal	UNEP	195,000	10/22/2003
35	Sierra Leone	UNDP	200,000	4/12/2004
36	Solomon Islands	UNDP	200,000	6/16/2005
37	Sudan	UNDP	200,000	4/17/2003
38	Tanzania	UNEP	200,000	3/21/2003
39	Togo	UNDP	200,000	3/18/2004
40	Tuvalu	UNDP	200,000	2/12/2003
41	Uganda	UNEP	199,790	7/15/2003
42	Vanuatu	UNDP	200,000	4/7/2003
43	Yemen	UNDP	200,000	1/16/2003
44	Zambia	UNDP	197,500	12/5/2003
45	Global	UNDP	633,538	4/16/2003
46	Global	UNDP	211,126	9/2/2003

	Total		9,615,219	
LDC Country Parties that have not yet received financing for the preparation of a NAPA				
	Country	Implementing Agencies	Suggested Amount	Preparation Status
1	Angola	UNEP		Under Preparation
2	Equatorial Guinea	UNEP		No government response yet
3	Myanmar	UNEP		Delayed at country request
4	Nepal	UNEP		No government response yet