



Global Environment Facility

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Agenda Item 7

WORK PROGRAM SUBMITTED FOR COUNCIL APPROVAL

Recommended Council Decision

The Council reviewed the proposed Work Program submitted to Council in document GEF/C.22/5 and approves it subject to comments made during the Council meeting and additional comments that may be submitted to the Secretariat by close of business December 5, 2003.

The Council also reviewed the project, *Global: Building Capacity for Effective Participation in the Biosafety Clearing House (BCH) of the Cartagena Protocol*, that was originally included in the Intersessional Work Program circulated to the Council on July 25, 2003, and approves it subject to comments made during the Council meeting and additional comments that may be submitted to the Secretariat by close of business December 5, 2003.

The Council finds that [, with the exception of ,] projects presented to it as part of the Work Program, and the resubmitted project (i) are or would be consistent with the Instrument and GEF policies and procedures and (ii) may be endorsed by the CEO for final approval by the Implementing Agency, provided that the CEO circulates to the Council Members, prior to endorsement, draft final project documents fully incorporating the Council's comments on the work program accompanied by a satisfactory explanation by the CEO of how such comments and comments of the STAP reviewer have been addressed and a confirmation by the CEO that the project continues to be consistent with the Instrument and GEF policies and procedures.

[With respect to , the Council requests the Secretariat to arrange for Council Members to receive draft final project documents and to transmit to the CEO within two weeks any concerns they may have prior to the CEO endorsing a project document for final approval by the Implementing Agency. Such projects may be reviewed at a subsequent Council meeting at the request of at least four Council Members.]

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I. PROJECTS IN THE PROPOSED WORK PROGRAM

Biological Diversity

- **Regional (Estonia, Hungary, Lithuania, Mauritania, Niger, Nigeria, Senegal, Gambia, South Africa, Tanzania, Yemen, Turkey):** Enhancing Conservation of the Critical Network of Sites of Wetlands Required by Migratory Waterbirds on the African/Eurasian Flyways
- **Chile:** Conserving Globally Significant Biodiversity along the Chilean Coast
- **Madagascar:** Third Environment Programme
- **Republic of Korea:** Conservation of Globally Significant Wetlands
- **Vietnam:** Forest Sector Development Project

Biodiversity (Biosafety)

- **Global:** Add-on for Development of National Biosafety Frameworks Project

Climate Change

- **Global:** National Communications Program for Climate Change
- **Global:** Fuel Cells Financing Initiative for Distributed Generation Applications
- **Cuba:** Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the Case of Isla de la Juventud
- **Eritrea:** Wind Energy Applications
- **Tunisia:** Development of On-Grid Wind Electricity in Tunisia for the 10th Plan
- **Tunisia:** Development of an Energy Efficiency Program for the Industrial Sector for Tunisia

International Waters

- **Global:** Coral Reef Targeted Research and Capacity Building
- **Regional (Azerbaijan, Iran, Kazakhstan, Russian Federation, Turkmenistan):** Towards a Convention and Action Programme for the Protection of the Caspian Sea Environment (Phase II)

- **Regional (Angola, Benin, Cameroon, Congo DR, Cote d'Ivoire, Gabon, Ghana, Equatorial Guinea, Guinea-Bissau, Liberia, Nigeria, Senegal):** Combating Living Resource Depletion and Coastal Area Degradation in the Guinea Current LME through Ecosystem-based Regional Act
- **China:** Hai River Basin Integrated Water Resources Management

Multiple Focal Areas

- **Global:** Environmental Business Finance Program (EBFP)
- **Brazil:** Integrated Agro-Ecosystem Management in the North-Northwestern Fluminense State of Rio de Janeiro
- **China:** Nature Conservation and Flood Control in the Yangtze River Basin

RESUBMISSION

Biodiversity (Biosafety)

- **Global:** Building Capacity for Effective Participation in the Biosafety Clearing House (BCH) of the Cartagena Protocol

II. WORK PROGRAM

1. The Chief Executive Officer (CEO), after reviewing the conclusion and recommendations of the project review meetings with the Implementing Agencies, proposes to the Council for its consideration and approval a Work Program comprising 19 new full-size project proposals with the following GEF allocations (see Annex A for details on these projects):

Biodiversity	\$ 35.61 million (5 projects)
Biodiversity/Biosafety (EA)	\$ 5.22 million (1 project)
Climate Change	\$ 95.29 million (6 projects)
International Waters	\$ 56.97 million (4 projects)
Multiple Focal Areas	\$ 31.00 million (3 projects)
Total GEF allocation	\$ 224.09 million (19 projects)
Total project cost	\$ 836.95 million

Table 1. Trends in the Work Programs of FY 1999 - 2003 by Focal Area (\$ million)

FY	Biodiversity	Biodiversity (Biosafety)	Climate Change	Inter- national Waters	Multiple Focal Areas	Ozone	POPs	Total
1999	181.48		125.45	96.28	35.13	34.71		473.06
2000	182.75		186.41	47.43	29.12	7.51		453.20
2001	185.30		177.52	74.53	26.05		6.19	469.59
2002	79.35	7.19	132.10	80.11	42.23			340.98
2003	120.79	2.00	171.65	79.60	75.56	2.09	40.32	514.36
Jul-03	35.26	4.62 ¹		8.47				48.35
Nov-03	35.61	5.22	95.29	56.97	31.00			224.09
Cum. FY04	70.87	9.84	95.29	65.45	31.00	-	-	272.44

2. Table 1 contains the cumulative amounts for the Work Programs of the last five fiscal years. The Biodiversity and Climate Change Focal Areas are recovering from a dip in 2002. The Climate Change Focal Area recovered already in 2003 to more typical levels. Multifocal projects have shown an upward trend in the last years which seems to continue in the current fiscal year.

3. The GEF also finances medium-sized projects, project preparation grants, and enabling activities under expedited procedures. Expedited approvals by the CEO or Implementing Agencies in the reporting period (July 1, 2003 to September 30, 2003) comprise:

¹ A global project "Building Capacity for Effective Participation in the Biosafety Clearing House (BCH) of the Cartagena Protocol" with a GEF allocation of \$ 4.62 million has been resubmitted to Council for the November 2003 Meeting.

Medium-sized projects	\$ 6.80 million (8 projects)	CEO, Annex B
PDF-A	\$ 0.32 million (13 grants)	IAs, Annex C
PDF-B/C	\$ 2.31 million (7 grants)	CEO, Annex D
Enabling activities	\$ 7.02 million (27 projects)	CEO, Annex E
Total GEF allocation	\$ 16.45 million	

4. The total project costs for medium-sized projects were \$ 37.74 million, \$ 30.94 million of which were committed cofinancing.

5. The total fees for the project implementation services provided by the agencies for this Work Program (full-size projects, medium-sized projects, and enabling activities) would be \$ 21.68 million. This amounts to 9.1 % of the total GEF allocations. (The fee ratio was 13.5% for the July 2003 Intersessional Work Program.)

Enabling Activities under Expedited Procedures

6. GEF support for Biodiversity Enabling Activities through the reporting period covered two countries (\$ 227,000), one of them for “top-up” funding.

7. GEF support for Climate Change Enabling Activities covered five project proposals (\$492,000). Four of these are for capacity building measures in priority areas.

8. GEF support for Persistent Organic Pollutants (POPs) Enabling Activities in this reporting period covered 10 new projects in 10 countries, with a total financing of \$ 4,213,000.

9. Ten new enabling activity projects were approved for governments to assess their own national capacity needs for global environmental management. A total of \$ 2,088,000 was allocated for these projects.

Cofinancing and Cofinancing Trends

10. Cofinancing is reported in the Project Executive Summary according to standard definitions.² The present Work Program includes \$ 612.9 million in cofinancing, about 73 % of total project cost. Differentiated by focal areas, it is particularly noteworthy that the biodiversity projects report ratios of almost 1:5. The cofinancing ratios in the International Waters Focal Area and in the multifocal projects around 1:3.5. The Climate Change Focal Area has a very low cofinancing ratio in this Work Program of 1:1.5. Table 2 shows the cofinanced amounts differentiated by their sources.

² See *Cofinancing*, GEF/C.20/6/Rev.1

Table 2. Proposed Cofinancing in the November 2003 Work Program (\$ million)

	Biodiversity	Biodiversity (Biosafety)	Climate Change	International Waters	Multiple Focal Areas	Total
GEF Grant*	35.606	5.218	95.290	56.973	30.998	224.088
Cofinancier Type						
Bilateral	6.860		1.092	6.425		14.376
Government	37.017		26.814	136.621	27.237	227.689
Multilateral	36.925		1.793	44.780	0.404	83.903
NGO	1.537			0.207	0.291	2.035
Private Sector	1.203		102.810	1.718	83.046	105.730
Others	85.510		10.572			179.128
Sub Total (Cofin)	169.051	-	143.081	189.751	110.977	612.860
Total	204.657	5.218	238.371	246.724	141.975	836.945
Ratio GEF : Cofinancing ³	4.8		1.5	3.3	3.6	2.7
Percentage Cofinancing ⁴	83 %	0 %	60 %	77 %	78 %	73 %

(*) Including previous grants for project preparations

11. Table 3 contains the trends of proposed cofinancing in the Work Programs of the last five fiscal years by Focal Area. High rates of cofinancing have historically been observed in the Climate Change. The last two Fiscal Years have seen cofinancing ratios between 1:3 and more than 1:4 in the International Waters Focal Area and in multifocal projects. FY04 so far confirms this range. The cofinancing in Climate Change Focal Area in the current Work Program is exceptionally low due to the large allocation for the full size project *National Communications Program for Climate Change*. Excluding this project results in a cofinancing ratio for the Climate Change Focal Area of 1:3.8 which is similar to the cofinancing ratio for multifocal projects of 1:3.6, but still less cofinancing than observed in the past. Cofinancing in the Biodiversity Focal Area has historically experienced ratios between 1:2 and 1:4. FY04 currently shows positive developments in this Focal Area. This is even more prominent when looking at absolute amounts rather than the ratios: In the first two Work Programs of FY04, cofinancing in the Biodiversity Focal Area is already more than \$ 280 million, which is more than the total cofinancing during FY03.

³ Read: Dollars of cofinancing for each dollar of GEF grant

⁴ Share of cofinancing of the total project cost

Table 3. Trends in Cofinancing Ratios in Work Programs of FY 1999 - 2003⁵

FY	Biodiversity	Biodiversity (Biosafety)	Climate Change	International Waters	Multiple Focal Areas	Ozone	POPs	Total
1999	1.88		3.48	1.27	0.89	2.22		2.13
2000	2.22		7.03	0.85	1.58	0.13		3.98
2001	4.25		3.48	1.21	2.97		0.51	3.35
2002	2.35	1.75	6.67	3.11	4.12			4.41
2003	1.91	2.77	5.34	4.62	3.02		1.28	3.61
Jul-03	2.29	0.08 ⁶		0.89				1.84
Nov-03	4.75		1.50	3.33	3.58			2.73
Cum. FY04	3.53	0.04	1.50	3.01	3.58			2.58

Fees and Fee Trends

12. The fee ratio⁷ for the November 2003 Work Program (9.1 %) is comparable to historical ratios (Table 4). Together with the ratios reported in the July 2003 Intersessional Work Program, the average ratio for FY04 until now is 10.1 %. This figure converges to typical numbers that we observe over a full fiscal year.

13. Fees are paid to the agencies in order to compensate them for costs related to Project Cycle Management Services. For the *Global: Environmental Business Finance Program (EBFP)* (World Bank / IFC) with a GEF allocation of \$ 20 million there is no fee request. The Implementing Agency intends to cover all management and operations costs with the reflows generated within the project, which are expected to amount to \$ 6.3 million over a period of 10 years.

⁵ Read: Dollars of cofinancing for each dollar of GEF grant

⁶ This project has been resubmitted to Council for the November 2003 Meeting.

⁷ The fee ratio is defined as IA fee divided by the GEF allocation for the project.

Table 4: Fee Trends in the FY00–Nov03 WP

	GEF Grant (\$ million)	IA Fees (\$ million)	No. of Projects	Fee Ratio⁸
FY2000	486.360	39.139	124	8.0%
FY2001	508.504	41.031	165	8.1%
FY2002	398.567	45.562	194	11.4%
FY2003	548.092	51.351	223	9.4%
July 03 IWP	65.702	8.890	54 ⁹	13.5%
Nov 03 WP	237.903	21.680	54	9.11%
Cum. FY04	303.605	30.570	109	10.07%

14. The fee trends for full size projects are displayed in Table 5. In the current Work Program, nineteen of the 54 project proposals are full size projects (35 %). Their allocations constitute 94 % of the total GEF grant. Since these projects generally have lower fee ratios, this had the overall effect of lowering the fee ratio compared to the July 2003 Intersessional Work Program. In addition, the average GEF grant for full size projects in the current Work Program is much larger than the average grant in the July 2003 Intersessional Work Program. Furthermore, only eight medium-sized projects have been approved in the reporting period. This also reduced the overall fee ratio, as this group has the highest fee ratios.

Table 5: Fee Trends for Full Size Projects (FSP), FY00–Nov03 WP

	GEF Grant FSP (\$m)	IA Fees (\$m)	No. of Projects	Fee Ratio	Average Grant (\$m)	Total GEF Grants* (\$m)	FSP/Tot. Grant Ratio
FY2000	439.109	30.440	41	6.93%	10.710	486.360	90%
FY2001	443.497	33.556	52	7.57%	8.529	508.504	87%
FY2002	332.655	34.191	48	10.28%	6.930	398.567	83%
FY2003	491.981	44.141	68	8.97%	7.235	548.092	90%
July03 IWP	48.353	6.257	11 ¹⁰	12.91%	4.396	65.702	74%
Nov03 WP	224.086	19.601	19	8.75%	11.794	237.903	94%
Cum. FY04	272.439	25.858	30	9.49%	9.085	303.605	90%

*including MSP, EA under Expedited Procedures

III. WORK PROGRAM HIGHLIGHTS

⁸ The fee ratio is defined as IA fee divided by the GEF allocation for the project without the IA fee.

⁹ One project has been resubmitted to Council for the November 2003 Meeting.

¹⁰ One project has been resubmitted to Council for the November 2003 Meeting.

15. Projects in this Work Program illustrate well the application of the GEF Project Review Criteria such as interagency coordination, monitoring and evaluation, sustainability and replicability. Several projects in this Work Program follow larger programmatic approaches, or are continuations of such programs that have supported particular stakeholders or groups of activities, for example the Small Grants Program. The Work Program also contains a targeted research proposal, innovative approaches for technological innovation and a strong emphasis on capacity building. A special consideration for monitoring and evaluation is another common element of all projects in this Work Program, irrespective of agencies or focal areas.

Strategic Priorities

16. The Strategic Priorities presented to Council in May 2003 are already reflected in the project proposals in this Work Program. The examples presented here are indicative of this trend.

17. The *Vietnam: Forest Sector Development* (World Bank) project aims to maintain the biodiversity and ecological integrity of a group of ecosystems represented in about 50 of Vietnam's Special Use Forests. The approach used in this project is unique in that it is piloting a potentially effective and efficient mechanism which will foster the development of Special Use Forests at a sector-wide level. This is consistent with the first Strategic Priority of the Biodiversity Focal Area "Catalyzing Sustainability of Protected Areas". As the overall project is piloting this approach, resources have been allocated to generate and disseminate lessons learned and best practices on the institutional development of the project, as well as on the component related to the Special Use Forest with the aim to incorporate the lessons into the multi-donor, NGO, and Government Forest Sector Support Program (FSSP) as well as the Government's Five Million Hectare Reforestation Program. This is the type of activity that is called for by the Strategic Priority for biodiversity, "Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues".

18. The *Tunisia: Development of On-Grid Wind Electricity in Tunisia for the 10th Plan* (UNDP) project responds to the Strategic Priority "Power Sector Policy Frameworks Supportive of Renewable Energy and Energy Efficiency" in the Climate Change Focal Area. The project works together with the government to provide an enabling policy environment and smart incentives for investments into 100 MW of wind generation capacity and a prospective follow-up investment of 200 MW. The newly created policy framework will serve as the basis for the attraction of a multiple of this initial investment in latter years.

19. The *Republic of Korea: Conservation of Globally Significant Wetlands* (UNDP) project conforms well with the operational program on coastal, marine and freshwater ecosystems, and with the proposed Strategic Priorities for the Biodiversity focal area, particularly the priority "Mainstreaming Biodiversity in Production Landscapes and Sectors". It includes extensive cofinancing, stakeholder participation, and adaptive approaches.

Sustainability and Replicability

20. The *China: Nature Conservation and Flood Control in the Yangtze River Basin* (UNEP) project will promote and implement an integrated ecosystem management approach for the upper Yangtze River basin, to reduce sediment loads, to increase water retention capacity in the catchment, to conserve and sustainably use biological diversity, and to decrease net GHG emissions, while improving socio-economic conditions for the population. The project works with demonstration sites in the river basin, selected for their high potential for replication of best practices throughout this and similar ecosystems. The project will also establish a Monitoring and Early Warning System (MEWS) based on ecosystem functions in the upper Yangtze basin, a system which if successful will be replicated in other flood-prone areas of China and potentially the whole region. Lastly, the project will demonstrate the efficiency and effectiveness in achieving global environmental benefits and local environmental and socio-economic benefits by taking an integrated ecosystem management approach in the two demonstration sites. By the end of the project at least three additional non-project sites will be established that build on the results and experiences of the project demonstration sites. A replication strategy and plan for the complete Yangtze River Basin based on the lessons learned are developed and will be implemented by the Chinese Government after project completion.

21. Through the *Madagascar: Third Environment Program* (World Bank / UNDP) a further 8 million hectares will be brought under effective management as part of a 15 year investment program. Project activities will improve prospects for assuring programmatic sustainability and replication by concretely nesting conservation in the sustainable development framework. GEF activities and accompanying WB-IDA and UNDP sponsored interventions have been designed specifically to incorporate specific lessons distilled during EP II. Independent terminal evaluations of the WB and UNDP components were commissioned, and have been used as the basis for improving project design.

22. The *Republic of Korea: Conservation of Globally Significant Wetlands* (UNDP) project also promises long lasting impacts, in the institutional, economic, social and financial sustainability dimensions. Risks and their proposed mitigation strategies are discussed in the document and resulted in a viable vision for the implementation and sustainability of the conservation of these areas.

23. The *Regional: Enhancing Conservation of the Critical Network of Sites of Wetlands Required by Migratory Waterbirds on the African/Eurasian Flyways* (UNEP) project will undertake flyway-scale¹¹ strategic and catalytic activities to build capacity, raise awareness and enhance access to information and best wetland management practice. Site-based demonstration projects are embedded in this approach to showcase best practice across the project area and to catalyze other activities. Three main areas have been identified as foci for the project where this approach is most urgently needed: a) the improved identification and protective designation of wetlands; b) the development of technical and decision making capacity in specific sub-regions;

¹¹ A 'flyway' encompasses the entire range of a migratory species (or groups of species or distinct populations of a single species). This includes the breeding ground, the wintering area, the intermediate resting and feeding places and the relatively small area of land along which the birds migrate.

and c) the enhancement of communications capacity for stakeholders at the site and decision-making level. Together these components of the project form the foundation of a sound flyway conservation approach. Strong replication elements are central to the project strategy to disseminate best wetland management practice throughout the Africa-Eurasia region.

Interagency Cooperation and Coordination

24. Interagency cooperation is a very important factor in the implementation and success of GEF projects. This Work Program contains several very significant examples of improved cooperation between various agencies - GEF IAs, GEF EAs that are familiar with the GEF through the Expanded Opportunities program, and other agencies.

25. The *Brazil: Rio de Janeiro Integrated Ecosystem Management Project in Production Landscapes of the North-Northwestern Fluminense* (World Bank) project, for example, will promote an integrated ecosystem management approach to guide the development and implementation of sustainable land management practices while providing environmentally and socially sustainable economic opportunities for rural communities living in the North and Northeast Fluminense administrative regions of the State of Rio de Janeiro. At the same time the project will address threats to biodiversity of global importance and reverse land degradation in agricultural landscapes. Both processes currently pose serious threats for ecosystem functions and services. The success of the project will strongly depend on an effective and proactive collaboration with international and state agencies that are currently implementing complementary projects and programs in the same region. For example in terms of the biodiversity benefits, the project will coordinate with the multi-million Pro-Mata Atlantica program of KfW, which strengthens the current enforcement system in protected areas in the project region. The State Government of Rio de Janeiro and the Federal Government will coordinate and collaborate with the project through their baseline programs implemented by SEAAPI (with municipalities through PRONAF) and State Environmental Agencies which strongly focus on sustainable livelihoods.

26. GEF support towards the *Madagascar: Third Environment Program* (World Bank / UNDP) is part of the multi-donor support towards the third phase of a 15-year investment program to consolidated environment management and conservation. The proposed project is geared towards the implementation of selective elements of the third phase of the Environment Program, based on the incremental cost principle. It is complementary to, and builds upon support provided by other partners and co-financiers. GEF support will make a significant contribution to consolidating and strengthening management of the Protecting Area system with a view towards assuring its long-term sustainability. The project will, *inter alia*, provide support to ensure the sustainable utilization of biological resources, to protect the ecological integrity of critical landscapes buffering protected areas, to build capacities for assuring stakeholder participation and to strengthen benefit sharing arrangements. Activities have been carefully designed to maximize the catalytic role and impact of GEF investment (whether through the WB or UNDP).

27. The *China: Hai Basin Integrated Water and Environment Management Project* (World Bank) deals with the specific problem of the Hai basin. This basin drains from the Beijing area to the Bohai Sea, which is part of the Yellow Sea Large Marine Ecosystem. The rivers in this part of China suffer from flow depletion related to over-irrigation and excessive pollution that contribute to downstream marine degradation, both issues related to strategic priorities in the focal area. In order to complement two existing GEF international waters projects with UNDP in the downstream marine ecosystems, the World Bank worked with the Government of China to develop this innovative demonstration in support of the Bohai Sea Declaration negotiated with GEF/UNDP. The Declaration contains multi-jurisdictional pollution reduction commitments similar to the Chesapeake Bay Agreement for cleanup in the United States. The project shows important collaboration among Implementing Agencies. The innovations stem from the project influencing the use of two World Bank loans to reduce new irrigation water demand by reuse of municipal wastewater, which also reduces pollution loading. It will support for the first time top-down and bottom-up participative mechanisms for integrated management reforms in the basin to manage water on the basis of evapotranspiration needs to reduce water scarcity caused by irrigation. If successful, the innovative technologies and institutional approaches would be replicable across China and Asia to address water scarcity and conflicting water uses that threaten sustainable development for billions of people.

Financing Instruments and Business Models

28. By using a variety of financial delivery mechanisms and business models, GEF projects can increase their sustainability. One reason for this is that the delivery mechanisms can be more responsive to the local stakeholders, for example when dealing with Small and Medium Enterprises. In other cases, sustainability is improved through the establishment of revolving funds and other institutions that remain operational in a country long after the formal project has terminated, and that constitute lasting resources for sustainable development. Alternative delivery mechanisms and business models can also be a way to increase cofinancing.

29. The key delivery mechanism for GEF support in the *Vietnam: Forest Sector Development* (World Bank) is the Vietnam Conservation Fund which will complement ongoing core activities at each Special Use Forest so as to improve biodiversity, provide institutional capacity at local and national levels. Providing limited but focused funding to several Special Use Forests through a competitive process will allow for opportunities to raise the baseline efforts to incorporate conservation aspects, re-orient future government spending, and collectively stimulate sector wide conservation reforms. This support will be complemented by technical assistance through a multi-donor trust fund that provides management and institutional support.

30. The *Tunisia: Development of an Energy Efficiency Program for the Industrial Sector* (World Bank) creates the preconditions for an ESCO industry that is specialized for industrial applications. In order to gain access to financing, these ESCOs can utilize a partial credit guarantee facility that can serve as a collateral for 50 % of the loans to ESCOs. This new way of facilitating access to local sources of funding also intends to educate the Tunisian financial institutions on the commercial viability of investments into energy efficiency. In addition, a small subsidy for industrial energy efficiency investments is administered through the Tunisian

industrial competitiveness fund. In the long run, the project participants expect that the competitiveness fund becomes more comfortable with using energy efficiency as a disbursement criterion and thus accounts for the global (and local) benefit in its ongoing practice.

31. The *Global: Environmental Business Finance Program (EBFP)* (World Bank / IFC) aims to create a sustainable market for Small and Medium Enterprise (SME) activities and projects that target any of the GEF's focal areas of climate change mitigation, biodiversity, land degradation, and international waters. This program responds to the key barriers that limit the abilities of small and medium environmental businesses, namely, limited access to financing, lack of management technical and environmental capacity, and lack of a conducive business environment. An additional constraint for SMEs engaged in these activities is the lack of awareness of GEF focal area products and services in the market place. EBFP will provide a financing facility, a technical assistance program, and a monitoring and evaluation framework that ties environmental performance with financial criteria, and will be a keystone for mainstreaming the environmental concern into financial intermediaries. A highlight of the new approach is that it aims to show to local Financial Intermediaries such as banks, leasing companies, and microfinance institution that GEF- eligible SME finance can be profitable. They will receive technical assistance to increase their capacity for engaging local market players in GEF-eligible activities.

32. The *Republic of Korea: Conservation of Globally Significant Wetlands* (UNDP) project now proposes a higher cofinancing than initially agreed at concept and PDF B review when cofinancing of only about 50 % was proposed. Cofinancing on this project is now reflected as more than \$11 million for a total financing package of \$13.5 million. This substantial increase in cofinancing is achieved by including the private sector whose objectives will clearly conform with the overall environmental goals of the project. The project will use a mix of instruments and approaches to generate financial revenues. Tourism approaches, for example, will be an important tool to lend financial support for environmental management. At the same time, the project will avoid additional environmental problems from tourism development.

Capacity Building

33. Several projects include a strong emphasis on capacity building, integrated in the project proposal. One example for this trend is the *Cuba: Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the Case of Isla de la Juventud* (UNEP) project that devotes considerable resources to capacity development, and works with the government, local suppliers, and users as well as with foreign direct investors, and other stakeholders, to ensure that the investments can take place in a sustainable manner. It will improve the enabling environment for private sector investors in sustainable biomass fuel supplies and economically viable business opportunities in biogas-based heat and power production as well as wind farms in Cuba.

34. The *Regional: Towards a Convention and Action Programme for the Protection of the Caspian Sea Environment* (UNDP) project illustrates how GEF may provide funding in discrete increments over time can help countries move toward commitments on transboundary issues. A first short-term GEF project helped the participating countries learn to work together on their

transboundary water system, set priorities on key transboundary issues, and negotiate a joint political commitment in terms of a convention expressing the countries' willingness to protect their shared ecosystem. As a result, the draft Caspian environment convention negotiated under the first international waters project is scheduled for signing in early November 2003 in Tehran. The currently proposed 3-year increment would build capacity to work on the implementation of the convention commitments regionally and nationally to address a number of clear transboundary concerns, including adoption of specific protocols to the convention on these issues. Several concerns such as the health of seal populations and the impact of toxic substances are scientifically complex and need further work, including characterizing the baseline situation and establishing monitoring and evaluation indicators to track cleanup progress over time. Stakeholder participation and enhancement of civil society involvement is featured with a transparent website, NGO representation on the Steering Committee for the project, expansion of NGO networks in the region, and an internal small grants program focused on transboundary priorities.

35. The *Eritrea: Wind Energy Applications* (UNDP) project aims at transforming the market for wind energy applications in Eritrea. The project will help immediately by installing and operating a small wind park (750 kW) connected to the grid as well as eight decentralized wind stand-alone and wind-hybrid systems in rural villages. More importantly, however, the project will strengthen the country's capacity in terms of personnel, know-how, governmental institutions/authorities, and private companies with regard to wind energy utilization. The project thus ensures that the use of wind energy will be considered in future national electrification plans, particularly in wind-rich regions, by demonstrating it as a cost-effective electricity generation technology, which can be replicated throughout the country.

36. The *Regional: Combating Living Resources Depletion and Coastal Area Degradation in the Guinea Current Large Marine Ecosystem through Ecosystem Based regional Actions* (UNDP/UNEP) project involves 16 West African coastal countries. It utilizes a combination of foundational work (capacity building, diagnostic studies and priority setting) and pilots for on-the-ground demonstrations, to address the environmental problems identified through a previous pilot phase project in 6 countries, and expand the much-needed foundational work to the entire Large Marine Ecosystem of 16 countries. Two implementing agencies will cooperate in this effort according to their comparative advantages. The focus will be on fisheries depletion, coastal erosion, and land based sources of marine pollution. The project will strengthen cooperation among countries within the context of the Abidjan Convention, and will produce a program of regionally agreed single country reforms and investments.

Monitoring and Evaluation

37. The projects submitted for Work Program inclusion fully comply with the GEF project review criteria, which require project briefs to outline initial monitoring and evaluation plans. In accordance with the GEF project cycle, the agencies (after Council's approval of the Work Program and on the basis of Council's comments) conclude preparation and appraise the projects, including finalized and detailed monitoring and evaluation plans and performance indicators, for CEO endorsement of the final project documents.

38. In addition, many projects experiment with monitoring and evaluation techniques as a means of capacity building and a tool for dynamic project management. One of these innovative approaches is tested in the *Global: Environmental Business Finance Program (EBFP)* (World Bank / IFC) project. EBFP will link the financial performance of the participants to their environmental performance, as measured by indicators. Records of environmental performance will determine the financing conditions imposed for loans and grants. As a part of their loan agreements with financial intermediaries, small and medium size enterprises will be required to monitor and report on a few key predetermined indicators of their environmental performance. In this manner, funding will be provided with a direct link to global environmental benefit. The linking tool is an environmental scorecard for the borrowers' environmental performance that will be developed within the project. It will be similar to "credit-scoring" systems used for credit decision-making processes in the financial sector, with the addition that environmental performance will also be one of the criteria used to determine a credit score for an SME, and thus mainstream sustainability into the financial system.

Strategic Partnerships and Programmatic Approaches

39. Several long-term programmatic approaches are included in this Work Program. Some of these long-term programs allow for optimal strategic cooperation, and thus provide for lasting impact and continuity in specific areas. Others are advantageous as they help reduce transaction costs within the GEF system.

40. The *Environmental Business Finance Program (EBFP)* (World Bank / IFC) is the continuation of GEF's support for small and medium enterprises under IFC's SME program and thus part of an ongoing long-term effort to offer projects of smaller sizes. EBFP has integrated the lessons learned from the SME program, and moves on to mainstreaming environmental business ideas into financial intermediaries who are much better suited to serve local entrepreneurs than any global institution.

41. Following the May 2003 approval by Council of expedited support for second national communications under the Climate Change Convention, "Operational Procedures" have been drafted and will be circulated to the Council for information. In order to further streamline the approval process for individual projects under expedited procedures, the project entitled *National Communications Program for Climate Change* is included in the current Work Program. Under this program, UNDP and UNEP will be authorized to approve projects that are in conformity with the operational procedures. Funds for up to 100 countries to be supported by UNDP and 30 by UNEP (indicative planning figures based on their respective roles in the first round of national communications) will be made available to the two agencies in a tranching manner to implement the program. On the basis of experience in first national communications, a technical support program has also been proposed, with the objective of assisting all recipient countries (regardless of Implementing Agency concerned). Some countries may wish to work with the World Bank for their second national communication. A similar programmatic approach will be adopted for that group of countries and Council approval sought through the Intersessional Work Program if necessary. For other countries that choose to present full projects for Council approval, existing approval procedures will continue to apply.

42. Lastly, a new programmatic approach is launched with this Work Program which is the *Global: Fuel Cells Financing Initiative* (World Bank / IFC). This program represents a structured learning and technology transfer approach that requires strategic and programmatic planning over several phases. It builds on the programmatic approach for the market introduction of stationary fuel cells developed by UNEP and IFC in 2001. The results of this project and the outline of the market introduction strategy have been made available to the Council at the December 2001 Council Meeting. The project brief for a framework for three subprojects is now submitted for Work Program inclusion. IFC has already been able to identify a very promising opportunity for implementation of the first subproject in South Africa. The Fuel Cell Financing Initiative is a unique attempt at bridging technological gaps between the North and the South before they start to become a problem.

Science and Technology Issues

43. The *Global: Fuel Cell Financing Initiative* (World Bank / IFC) represents a structured learning and technology transfer approach that requires strategic and programmatic planning over several phases. Fuel cells can produce electricity at higher conversion efficiencies than most other currently tested technologies. While stationary fuel cells still are not broadly disseminated in all developed countries, this project is there to ensure that the technology will be available to interested parties in the South. Apart from being very clean and very efficient, fuel cells offer specific advantages for a broad range of applications in developing countries. Their modular nature allows for use in distributed generation as well as in cogeneration, and for large-scale industrial applications as well as for hospitals or mini-grids. The initiative explicitly requires the participants to test a wide array of different applications and to test business models in order to reduce the transaction costs in the future when fuel cells will be a least-cost solution..

44. The objective of the *Global: Coral Reef Targeted Research and Capacity Building* (World Bank) is to fill critical gaps in our global understanding of what determines coral reef ecosystem vulnerability and resilience to a range of key stressors - from localized human stress to climate change - and inform policies and management interventions, including in particular World Bank funded investments, on coral reefs and the communities that depend on them. A related objective is to build much-needed capacity for science-based management of coral reefs in developing countries, where the majority of reefs are found. The project will take the lead of, and build upon other related ongoing initiatives at the academic and multilateral level. This coordinated effort will be supported by the GEF through its first phase, and is expected to continue on for an extended period of time thanks to sustainability mechanisms which will be put in place as part of the GEF project. This is the first full-sized targeted research project in the focal area of International Waters and it addresses a critical transboundary resource that is being destroyed. It attempts to align the global research community in the regions it works in to collaborate on research so that a better idea of the key cause among multiple causes of degradation may be determined. A key feature is that the World Bank has committed to national follow-up policy dialogues in countries with sites where the research results point to specific man-induced stresses that might be reduced.

Convention guidance

45. All GEF projects follow the guidance of the respective conventions which is translated into operational terms in all Operational Programs, Short Term Response Measures, and Enabling Activities. The project proposals are reviewed with the respective Convention Secretariats, and the need to respond to their comments is included in the GEF Project Review Criteria. Particularly noteworthy with respect to the UNFCCC is the *National Communications Program for Climate Change* (UNDP/UNEP), which allows for streamlined procedures for non-Annex I countries.

46. The global project *Add-on for Development of National Biosafety Frameworks Project* (UNEP) demonstrates the success of the first National Biosafety Framework project. That project was originally designed and approved for 100 countries. Now, additional countries want to develop national biosafety frameworks, and the add-on will provide the necessary funds. This project builds on the “Initial Strategy for Assisting Countries to Prepare for the Entry into Force of the Cartagena Protocol on Biosafety”, approved by Council in November 2000 (C16/4/Rev.1).

Country Eligibility

47. A special question relates to the project *Republic of Korea: Conservation of Globally Significant Wetlands* (UNDP). While it is our understanding that Republic of Korea is no longer eligible under paragraph 9(b) for GEF financing, we have agreed to include this project in the Work Program since ROK was eligible for GEF financing at the time the PDF B for preparing the project was approved (12/14/2001). Since there are to date no clear rules for addressing situations in which the eligibility of a recipient country changes during the course of the project cycle, the Secretariat concluded that it was appropriate to include the present project in the Work Program, since approval of the PDFB may have led to a presumption that the project would be financed by the GEF.

48. This example raises an issue concerning GEF eligibility rules and the timing for applying such rules which will be elaborated upon for Council consideration in a document on eligibility to be prepared for the Council meeting in May 2004. The document will seek to present and examine a number of issues concerning eligibility that have arisen in the GEF concerning the application of paragraph 9 of the Instrument, and Council guidance will be sought so as to clarify rules and procedures for resolving those issues

IV. RESUBMISSION FROM INTERSESSIONAL WORK PROGRAM

49. The *Global: Building Capacity for Effective Participation in the Biosafety Clearing House (BCH) of the Cartagena Protocol* (UNEP) project, with a GEF Allocation of \$ 4.61 million and \$ 350,000 in cofinancing, was originally submitted by the CEO as part of the July 2003 Intersessional Work Program. At the request of one Council Member, the project is being resubmitted at the November 2003 Council meeting for review and approval.

ANNEX A: PROJECT PROPOSALS SUBMITTED FOR COUNCIL APPROVAL, NOVEMBER 2003

ANNEX B: MEDIUM-SIZED PROJECTS UNDER EXPEDITED PROCEDURES

ANNEX C: PROJECT DEVELOPMENT FACILITY – PDF A

ANNEX D: PROJECT DEVELOPMENT FACILITY – PDF B/C

ANNEX E: ENABLING ACTIVITIES UNDER EXPEDITED PROCEDURES