



Global Environment Facility

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GEF Council
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Agenda Item 8

STATUS REPORT ON THE LEAST DEVELOPED COUNTRIES FUND FOR CLIMATE CHANGE AND THE SPECIAL CLIMATE CHANGE FUND

Recommended Council Decision

The Council, having reviewed GEF/C.25/4/Rev.1, *Status Report on the Least Developed Countries Fund for Climate Change and the Special Climate Change Fund*, welcomes the first completed NAPA from the Islamic Republic of Mauritania and the progress that has been made in financing the preparation of National Adaptation Programs of Action (NAPAs) by the LDC Parties to the UNFCCC. The Council also welcomes the formulation of policies and procedures for the support of projects under the SCCF, and the successful outcome of the meeting of donors for resource mobilization. The Council requests the Secretariat and the Implementing Agencies to expedite processing of projects under the fund. The Council approves an administrative budget of USD 466,400 and USD 538,200 respectively to cover the expenses of the GEF Secretariat and the Trustee in administering the LDCF and the SCCF for FY06 and FY07.

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).

Least Developed Countries Fund

2. At its meeting in May 2004, the Council took note of the resource mobilization for, and operations under, the LDCF, and approved a corporate budget and Implementing Agency fee proposal for the two year period, FY 05-06. The Council requested the GEF Secretariat to keep it and the Conference of the Parties informed of progress made in regard to the LDCF

3. At its meeting in November 2004, the GEF Secretariat reported to the Council on the current status of the LDC and approved operations in the document, *Status Report on the Least Developed Country Fund for Climate Change* (GEF/C.24/Inf.8/Rev.1). Preliminary operational guidance was also outlined in the information document, *Elements to be taken into account in Funding the Implementation of NAPAs under the LDC Fund* (GEF/C.24/Inf.7).

4. The GEF has been invited to two consultations with representatives of Least Developed Countries (LDCs) to discuss matters related to the LDCF. The GEF Secretariat actively participated in a meeting which was held in Dar Es Salaam, Tanzania in October 2004. The Secretariat is expecting to actively participate in a second meeting of LDCs which is scheduled to be held in Bonn, Germany, in May 2005 prior to the meeting of the Subsidiary Bodies (SBSTA/SBI) of the UNFCCC. The GEF Secretariat also participated in one meeting with the LDC Expert Group (LEG) in Bonn, Germany, in April 2005.

Special Climate Change Fund

5. At its meeting in November 2004, the Council endorsed the document, *Programming to Implement the Guidance for the Special Climate Change Fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth Session* (GEF/C.24/12) and approved it as an operational basis for funding activities under the SCCF.

6. Prior to the November 2004 Council meeting, the GEF convened a donor meeting at which USD 34 million was pledged to the SCCF. The Secretariat expects to begin considering proposals for funding under the SCCF in June or July of 2005.

7. The Council requested the GEF Secretariat to keep it and the Conference of the Parties informed of progress made in regard to the Special Climate Change Fund and to bring to its attention adjustments that may be required as experience is gained in financing on-the-ground projects.

8. This paper reports on the current status of the two funds and approved operations under the GEF. It also seeks Council approval for an administrative budget to cover the costs of activities by the Secretariat and the Trustee for two fiscal years, FY06 and FY07.

9. As agreed by the Council, the operations and administrative costs incurred in connection with managing both the LDCF and the SCCF are kept separate from the GEF Trust Fund.

Least Developed Country Fund (LDCF) ⁵

10. As of April 18, 2005, twelve donors have contributed to the LDCF. The total receipts to the Fund amount to USDeq. 32.9 million, which is comprised of cash contributions, promissory notes and investment income. Annex 1 provides the details of pledged contributions and status of payments to the LDCF.

11. Since the last report to the Council in November 2004, the Trustee has received a payment of USD 0.1 million from The Netherlands against its total pledged contribution of USD 2.1 million.

12. To date, LDCF allocations in the amount of USD 11.0 million for projects, fees and administrative budgets have been approved. Consequently, net funds available for allocation from the LDCF amounts to USDeq. 22.0 million (see Annex 2)

Report on NAPA Operations under the LDCF

13. The first completed National Adaptation Program of Action (NAPAs) was submitted to the UNFCCC Secretariat by the Islamic Republic of Mauritania in November 2004.

14. As of April 24, 2005, projects for the preparation of NAPAs in 43 countries have been approved (GEF/C.24/Inf.8/Rev.1). The total approved resources for 43 national NAPAs and two global support projects is USD 9,415, 219.⁶

15. UNDP and UNEP are currently working with the five remaining eligible countries (Angola, Equatorial Guinea, Myanmar, Nepal, and Solomon Islands) that have not yet completed their project proposals necessary to access financial support for the preparation of NAPAs.

16. At COP10, the Chair of the Least Developed Countries (LDC) group, with support from the UNFCCC Secretariat, circulated a questionnaire⁷ on the status of their NAPA preparations.

17. Representatives from 36 countries responded to this questionnaire, including Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Ethiopia, Gambia, Guinea, Guinea Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Madagascar, Malawi, Maldives, Mali, Mozambique, Nepal, Niger, Rwanda, Samoa, Senegal, Solomon Islands, Sudan, Tanzania, Togo,

⁵ Unless otherwise noted, all currency valuations are based on exchange rates as of April 18, 2005

⁶ The number does not include 11% fees for the Implementing Agencies.

⁷ Reference to UNFCCC questionnaire

Uganda, Vanuatu and Yemen. These countries represent 77% of the 47 LDC which are Parties to the UNFCCC and have not yet finalized their NAPAs.⁸

18. On the status of preparation of NAPAs, 25 LDCs reported having already completed the important initial step of setting up their NAPA teams, while 11 of them have yet to do so. In addition, 15 LDCs are in a more advanced stage of their NAPA preparation (ranging from the synthesis of available information and data on vulnerability to the development of proposals for priority adaptation activities).

19. Disbursement of projects funds for preparing their NAPAs have begun for 23 of the 36 respondents. The table below summarizes the responses to the questionnaire with regard to the expected date of completion of NAPAs.

Date of completion	Number of LDCs
First half 2005	8
Second half 2005	9
First half 2006	8
Second half 2006	8
Unknown	2
Answer missing	1

COP Guidance to the GEF on the LDCF

20. Decision 6/CP.9 calls upon the LDC Fund to support the implementation of NAPAs as soon as possible after their completion. Taking into account the elements highlighted in the decision, a proposal on the process to be followed in funding the implementation of NAPAs was submitted for information to the November 2004 Council meeting (*Elements to be taken into Consideration in Implementing NAPAs under LDC Fund*, GEF/C.24/Inf.7) and to the UNFCCC COP10 in Buenos Aires, Argentina (December 2004).

21. At the tenth session of the Conference of the Parties to the UNFCCC, held in Buenos Aires in December 2004, Parties held deliberations on further guidance to the GEF regarding the LDCF. The guidance under discussion is concerned with funding the implementation of NAPAs. Once the COP has finalized its discussions, the GEF will prepare proposals to operationalize the guidance for consideration by the Council.

Special Climate Change Fund (SCCF)⁹

22. At the pledging meeting in November 2004, nine donors (Denmark, Finland, Germany, The Netherlands, Norway, Portugal, Sweden, Switzerland, and the United Kingdom) pledged contributions to the SCCF. Since this meeting, five donors (Germany, The Netherlands,

⁸ The questionnaire did not apply to Mauritania as it already submitted its NAPA in November 2004.

⁹ Unless otherwise noted, all currency valuations are based on exchange rates as of April 18, 2005

Norway, Sweden, and Switzerland) have signed a contribution agreement with the Trustee. The Trustee is in communication with the remaining four donors (Denmark, Finland, Portugal, and the United Kingdom) to assist them in finalizing their contributions when all legislative steps have been completed by these donors. Annex 3 provides the details of pledged contributions and payments to the SCCF.

23. The Trustee began accepting contribution payments to the SCCF in January 2005. Since then, the total cash receipts to the SCCF amount to USD 6.7 million, comprised of donor contribution payments and investment income. Of this amount, USD 5.6 million is dedicated to the Program for Adaptation and USD 1.1 million is for the Program for Transfer of Technology. Annex 4 shows the funding status for the SCCF.

COP Guidance to the GEF on the SCCF

24. 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.

Administrative Costs

Secretariat

25. The GEF Secretariat continues to be responsible for oversight of the funds; formulation of operational policies; review and processing of projects for CEO and Council approval; management of the portfolio of LDCF and SCCF projects; coordination with the Implementing Agencies, the Trustee and the Convention Secretariat; and reporting to the Council and the Convention. At its meeting in May 2004, the Council approved a corporate budget for the management of the LDCF for the two-year period FY05 and FY06. Experience during this first year of operation has shown that the number of weeks of staff time requested from the Secretariat is increasing, and the expectation is that significant additional time will be required to develop proposals concerning implementation of NAPAs and to oversee NAPA implementation activities. In addition, the establishment of the SCCF will also require additional staff time and travel that must be accounted for separately from the administration of the GEF Trust Fund. Therefore, it is proposed that the GEF Secretariat will finance one staff position to assume responsibility for supervising the activities of these funds. It is proposed that one half of this amount (26 weeks or USD 113,100) will be financed from the resources of the LDCF and one half will be financed from the resources of the SCCF. This increase relative to the number of staff weeks and travel that were provided solely for the LDCF in FY05, reflects both the additional requirements for managing the SCCF and the transition under the LDCF from policy development and enabling activities to project design, review and implementation. In addition to staff time, the travel costs of the LDCF is estimated at 3 trips per year (\$10,000 per trip) and for the SCCF at 2 trips per year (USD10,000 per trip). Over the two fiscal years FY06 and FY07,

the total cost for the GEF Secretariat to be charged to the LDCF is USD 286,200 and the total cost to be charged to the SCCF is USD 266,200. Any unutilized funds will be returned to the funds.

26. As agreed with the donors under the Trust Administration Agreements, the Trustee will receive an administrative fee to cover the reasonable actual expenses incurred by the Trustee in carrying out the Trustee function. For FY06, the Trustee had previously projected a fee of USD 88,600 to cover its total administrative expenses for the LDC fund. This estimate has not changed since the original request. For the SCCF, the Trustee is requesting an amount of USD 156,000 to cover its administrative fee for FY06. This amount includes costs for developing the infrastructure needed to handle the various programs established under the SCCF and other costs associated with starting up the fund. For FY07, the Trustee expects to charge USD 91,600 to the LDCF and USD 116,000 to the SCCF. The highlights of the Trustee work program over the coming two years for both the LDCF and the SCCF include: (a) the management of donor contributions; (b) financial and investment management of resources; (c) commitments and disbursements of resources to the Implementing Agencies; (d) infrastructure and systems support; (e) accounting and reporting; (f) audit preparation and the cost of an actual audit for the SCCF; and (g) assisting in the clarification and formulation of grant application procedures. Because these services are incremental to those for the GEF Trust Fund, the Trustee is able to keep its administrative fees for managing these two funds low.

27. The total administrative budget for these two funds for FY 06 and FY 07 is estimated at USD 466,400 for the LDCF and USD 538,200 for the SCCF

Implementing Agency fees

28. At the moment, the Implementing Agencies are mainly engaged in assisting LDCs in the preparation of NAPAs. The Council approved a fee, for project cycle management services, equivalent to 11% of project costs for NAPAs. NAPAs are a new area of work and the Implementing Agencies needed to establish procedures for preparing and processing projects, supervision, benchmarks for implementation, and monitoring and evaluation. Strong and sustained support to country teams is provided, especially given the institutional challenges in LDCs and the need for extensive and complex consultations to prepare the NAPAs.

29. It is proposed that when the work of the Implementing Agencies evolves into assisting countries to implement their NAPAs, the fee should be consistent with the fee policy approved for projects financed under the GEF Trust Fund.

Least Developed Countries Fund for Climate Change
Status of Pledged Contributions
as of April 18, 2005

Pledged Contributions				
Donor	Currency	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	4,000,000	4,000,000	-
Spain	EUR	240,300	240,300	-
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.

Least Developed Countries Fund for Climate Change
Statement of Funding Status
as of April 18, 2005

		<u>Amount in USD</u>
1.	Amount received in the LDC Fund	32,276,024 <i>a/</i>
	<i>Cash contributions received</i>	20,729,024
	<i>Promisory note received</i>	11,547,000 <i>b/</i>
2.	Investment Income Earned	658,804 <i>c/</i>
3.	Cumulative funds made available for Allocation by the Council (1+2)	32,934,828
4.	Cumulative Allocations made by the Council	10,974,588
	<i>Allocations made for projects</i>	9,415,219
	<i>Allocations made for I.A fees</i>	1,026,191
	<i>Net Allocations made for administrative budgets</i>	533,178 <i>d/</i>
5.	Net Funds available for Allocation by the Council (3 - 4)	21,960,240

a/ Net Funds available for allocation by the Council do not include the outstanding amount due from The Netherlands as shown in Annex 1.

b/ 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 April 18, 2005 exchange rates.

c/ Investment income includes unrealized gains/losses based on mark-to-market valuation of investments.

d/ Net of underspent administration budget from the GEFSEC for fiscal years 2003 and 2004.

Special Climate Change Fund
Status of Pledged Contributions
as of April 18, 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	0	5,000,000
Netherlands	EUR	2,400,000	2,400,000	0
Norway	NOK	10,000,000	10,000,000	0
Portugal <i>b/</i>	EUR	190,000	-	-
Sweden	SEK	10,000,000	10,000,000	0
Switzerland	CHF	600,000	600,000	0
United Kingdom <i>b/</i>	GBP	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 intends to pay its contribution in five equal installments of EUR 1 million each payable in April of each year starting from 2005 through 2009.

Special Climate Change Fund
Statement of Funding Status a/
as of April 18, 2005

		<u>Amount in USD</u>
<u>Program for Adaptation</u>		
Cash contributions received	5,612,179	
Investment income earned b/	<u>25,111</u>	
Funds available for Allocation by the Council for Adaptation		5,637,290
 <u>Program for Transfer of Technology</u>		
Cash contributions received	1,091,570	
Investment income earned b/	<u>4,884</u>	
Funds available for Allocation by the Council for Transfer of Technology		1,096,454
 Total funds available for Allocation by the Council for SCCF		 <u><u>6,733,744</u></u>

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.

b/ Investment income includes unrealized gains/losses based on mark-to-market valuation of investments.