



**Global Environment Facility**

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GEF Council  
May 15-17, 2002  
Agenda Item 7

**ARRANGEMENTS FOR THE ESTABLISHMENT  
OF THE NEW CLIMATE CHANGE FUNDS**

### **Recommended Council Decision**

The Council, having reviewed Document GEF/C.19/6, *Arrangements for the Establishment of the New Climate Change Funds*, approves, subject to the comments made at the Council meeting, the arrangements proposed for the establishment of the new climate change funds. In this regard, the Council:

- (a) invites the World Bank to act as Trustee for the three new funds;
- (b) requests the Secretariat to mobilize resources for the funds based on an assessment of financing needs that takes into account the guidance approved by the Conference of the Parties to the UNFCCC; and
- (c) requests the Secretariat to inform the eighth session of the Conference of the Parties to the UNFCCC on the arrangements for the establishment of these funds.

## Table of Contents

Introduction .....	1
General Principles to be applied to the operation of the Funds .....	1
Specific characteristics of each fund .....	3
Trustee for the new funds .....	7
Preliminary indications of funding .....	7
Next Steps.....	8
Trustee to establish new funds .....	8
Donor Meetings .....	8
Information sharing.....	8
Report to COP8.....	9
New Guidance to be reported to the Council at its meeting in May 2003 .....	9

## **INTRODUCTION**

1. At the seventh session of the Conference of the Parties to the UN Framework Convention on Climate Change held in Marrakesh, from October 29 to November 10, 2001, (COP7) the GEF, as the financial mechanism of the Convention, was requested to operate two new funds related to the UN Framework Convention on Climate Change (the Special Climate Change Fund and the Least Developed Countries Fund) as well as a new fund related to the Kyoto Protocol (the Adaptation Fund). Furthermore, the GEF was invited to make arrangements for the establishment of these funds and to report to COP8, to be held in October 2002, on its response. Accordingly, the Council is invited to consider and approve the arrangements proposed in this paper at its meeting in May 2002, so that this information may be included in the GEF report to COP8.

## **GENERAL PRINCIPLES TO BE APPLIED TO THE OPERATION OF THE FUNDS**

2. Based on the discussions and decisions of COP7, arrangements for operating the funds are to be based on the following principles.

3. GEF was requested, as an entity entrusted with the operation of the financial mechanism, to manage the funds. In operating the funds, the operational policies and procedures and governance structure of the GEF will apply to the operation of all the funds, unless the Conference of the Parties determines through guidance concerning the modalities for operating the funds that other arrangements should be made<sup>1</sup>. Any additional operational policies that may be required for the operation of the funds will be brought to the Council's attention for review and approval as issues emerge in developing specific project proposals. Future Council decisions related to operational policies, procedures and the governance structure of the GEF, where appropriate, will be extended to the management of the new funds. This should serve to make operations as transparent and streamlined as possible.

4. In operating the funds, the GEF will emphasize a culture of quality and results while continuously striving to improve its responsiveness to countries and to the guidance of the Parties and to make its processes more streamlined and efficient. Any additional streamlining of procedures to be applied specifically for purposes of one of the new funds will depend on factors such as emerging guidance, the size of the new funds and the size and nature of the projects they support. For example, in accordance with COP guidance and keeping in mind the urgency and simplified approach to national adaptation programs of action (NAPAs), the GEF has already prepared, in consultation with the Implementing Agencies, the Secretariat of the UNFCCC, experts from the least developed countries, and other experts, simple operational guidelines to offer financial support in an expedited manner to least developed country Parties through the Least Developed Countries Fund.

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<sup>1</sup> Decision7/CP.7, which establishes the special climate change fund and the least developed country fund, provides that the Conference of the Parties is to provide guidance to the entity operating the funds on modalities for operating the funds, including expedited access.

5. Recalling Article 4.3 of the UNFCCC which provides for developed country Parties and other developed Parties included in Annex II to provide new and additional financial resources to meet the agreed full incremental costs of implementing measures that are covered in paragraph 1 of Article 4 of the Convention, resources from the new funds shall be used to meet the agreed full incremental costs of implementing measures within the mandate of the funds unless the guidance of the Parties indicates otherwise. One example of such an exception is the guidance for the Least Developed Countries Fund that specifies that funding is to be provided to meet the agreed full cost of preparing the NAPAs.
6. Arrangements agreed between the Conference of the Parties to the UNFCCC and the GEF Council to give effect to the respective roles and responsibilities of the COP and the GEF and provided for in the Memorandum of Understanding between the COP and the Council will be applied, *mutatis mutandis*, for purposes of the new funds.
7. It is expected that the Conference of the Parties to the Convention will provide guidance to identify program priorities for financing within the broad scope of the mandate of each Fund<sup>2</sup>. The GEF will prepare an operational strategy to facilitate the effective implementation of the guidance. Such a strategy will include an assessment of financing needs for the identified priorities which will be utilized to seek contributions to the fund to meet such needs.
8. Projects will only be proposed for approval by the Council or CEO to the extent that funds are available in the trust fund concerned.
9. The GEF will keep separate and distinct the program of activities financed by the GEF Trust Fund from those financed by each of the new funds established by the Conference of the Parties. Costs associated with operating each fund as well as those associated with activities to be financed from a particular fund will be charged to such fund. Separate accounts and reporting will be maintained. Once the funds become operational, a report on each fund will be submitted to the Council at each of its regular meetings.
10. The GEF will seek to maximize the collective impact of its climate change funding provided through the GEF Trust Fund and the new funds by avoiding duplication of activities.
11. The GEF project cycle, including expedited procedures, implementing structure and monitoring and evaluation policies and procedures will be applied in preparing and managing projects and programs.
12. The World Bank will be invited to serve as trustee of the new funds.

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<sup>2</sup> COP 7, by its decision 27/CP.7, adopted initial guidance for the operation of the LDC Fund, including the preparation of NAPAs as a program priority.

## **SPECIFIC CHARACTERISTICS OF EACH FUND**

### Special Climate Change Fund

13. **Scope:** In accordance with paragraph 2 of decision 7/CP.7, the fund shall finance activities, programs and measures relating to climate change, that are complementary to those funded by the resources allocated to the climate change focal area of the GEF and by bilateral and multilateral funding, in the following areas:

- (a) adaptation, in accordance with paragraph 8 of decision 5/CP.7;
- (b) transfer of technologies, in accordance with decision 4/CP.7;
- (c) energy, transport, industry, agriculture, forestry and waste management;
- (d) activities to assist developing country Parties referred to under Article 4, paragraph 8(h) (i.e., countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products) in diversifying their economies, in accordance with decision 5/CP.7.

14. In addition to the scope defined above, Paragraph 8 of Decision 5/CP.7, more specifically provides that the following activities are to be supported through the special climate change fund and/or the adaptation fund:

- (a) starting to implement adaptation activities promptly where sufficient information is available to warrant such activities, inter alia, in the areas of water resources managements, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management;
- (b) improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems, and in this context improving disease control and prevention;
- (c) supporting capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events;
- (d) strengthening existing and, where needed, establishing national and regional centers and information networks for rapid response to extreme weather events, utilizing information technology as much as possible.

15. Paragraph 19 of Decision 5/CP.7 also specifies that the implementation of activities included in paragraphs 25 to 32 of the decision shall be supported through the Global Environment Facility, the special climate change fund and other bilateral and multilateral sources. These paragraphs<sup>3</sup> read as follows:

“22. Encourages Annex I and non-Annex I Parties to cooperate in creating favorable conditions for investment in sectors where such investment can contribute to economic diversification;

23. Requests Annex II Parties to assist developing countries, in particular those most vulnerable to the impact of the implementation of response measures, in meeting their capacity-building needs for the implementation of programs which address these impacts;

24. Urges Parties to consider appropriate technological options in addressing the impact of response measures, consistent with national priorities and indigenous resources;

25. Encourages Parties to cooperate in the technological development of non-energy uses of fossil fuels, and requests Annex II Parties to support developing country Parties to this end;

26. Encourages Parties to cooperate in the development, diffusion and transfer of less greenhouse gas-emitting advanced fossil-fuel technologies, and/or technologies relating to fossil fuels, that capture and store greenhouse gases, and requests Annex II Parties to facilitate the participation of the least developed countries and other non-Annex I Parties in this effort;

27. Urges Annex II Parties to provide financial and technological support for strengthening the capacity of developing country Parties identified in Article 4, paragraphs 8 and 9, of the Convention for improving efficiency in upstream and downstream activities relating to fossil fuels, taking into consideration the need to improve the environmental efficiency of these activities;

28. Encourages Annex II Parties to promote investment in, and to support and cooperate with, developing country Parties in the development, production, distribution and transport of indigenous, less greenhouse gas-emitting, environmentally sound, energy sources, including natural gas, according to the national circumstances of each of these Parties;

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<sup>3</sup> While paragraph 19 of Decision 5/CP.9 makes reference to paragraphs 25 to 32 of the decision, a reasonable reading of the text leads to the conclusion that the reference should more logically be to paragraphs 22 to 29.

29. Urges Annex II Parties to provide support for research into, and the development and use of, renewable energy, including solar and wind energy, in developing country Parties.”

16. **Provision of guidance:** The Conference of the Parties is to provide guidance to the entity operating the fund on the modalities for operating this fund, including expedited access. It is expected that such guidance will also serve to identify program priorities for financing by the Fund within the broad scope of its mandate.

17. **Source of financing:** Parties included in Annex II, and other Parties included in Annex I that are in a position to do so, are invited to contribute to the fund.

18. **Eligibility:** Decision 7/CP.7 provides that funding is to be provided to developing country Parties. It is assumed that developing country Parties will be defined as all non-Annex I Parties, as is the case for purposes of the financial mechanism.

#### Least Developed Countries Fund

19. **Scope:** In accordance with paragraph 6 of Decision 7/CP.7, the Fund is to support a work program for the least developed countries. This work program is to include, *inter alia*, national adaptation programs of action. Paragraph 12 of Decision 5/CP.7 similarly provides that the least developed countries fund is to support the work program for the least developed countries, and that this work program is to include, *inter alia*, the preparation and implementation of national adaptation programs of action.

20. **Provision of guidance:** The Conference of the Parties is to provide guidance to the entity operating the fund on the modalities for operating this fund, including expedited access. It is expected that guidance will also serve to identify program priorities for financing by the Fund within the broad scope of its mandate.

21. At their seventh session, the Parties approved the following initial guidance (Decision 27/CP.7).

- (a) as a first step, to provide funding from the LDC Fund to meet the agreed full cost of preparing the NAPAs, given that the preparation of NAPAs will help to build capacity for the preparation of national communications under Article 12, paragraph 1, of the Convention;
- (b) to ensure complementarity of funding between the LDC Fund and other funds with which the operating entity is entrusted;
- (c) to ensure separation of the LDC Fund from other funds with which the operating entity is entrusted;



- (d) to adopt simplified procedures and arrange for expedited access to the Fund by the least developed countries, while ensuring sound financial management;
- (e) to ensure transparency in all steps relating to the operation of the Fund;
- (f) to encourage the use of national and, where appropriate, regional experts;
- (g) to adopt streamlined procedures for the operation of the Fund.

22. Parties agreed at COP7 to consider and adopt further guidance on the operation of the LDC fund at its eighth session (October 23 to November 1, 2002, New Delhi).

23. **Source of financing:** Annex II Parties are invited to contribute to the work program. It is assumed that this will include contributions to the LDC Fund. Preliminary indications of funding are provided in paragraphs 31 to 33 below.

24. **Eligibility:** It is assumed that financing will be available to all Least Developed Countries as defined by the United Nations that are also party to the Convention. Currently, 49 countries have been designated as least developed countries, of which 46 countries are Parties to the UNFCCC. The list of LDCs is reviewed every three years by the UN Economic and Social Council.

#### Kyoto Protocol Adaptation Fund

25. **Scope:** In accordance with paragraph 1 of Decision 10/CP.7, the Fund is to finance concrete adaptation projects and programs as well as the following activities identified in paragraph 8 of decision 5/CP.7. Paragraph 8 specifies the following activities:

- (a) starting to implement adaptation activities promptly where sufficient information is available to warrant such activities, *inter alia*, in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management;
- (b) improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems, and in this context improving disease control and prevention;
- (c) supporting capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events;

- (d) strengthening existing and, where needed, establishing national and regional centers and information networks for rapid response to extreme weather events, utilizing information technology as much as possible.

26. **Provision of Guidance:** Guidance on the operation of the fund is to be provided by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, with guidance to be provided by the Conference of the Parties in the period prior to the entry into force of the Kyoto Protocol. It is expected that such guidance will serve to identify program priorities for financing by the Fund within the broad scope of its mandate.

27. **Source of financing:** To be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding.<sup>4</sup> Parties included in Annex I that intend to ratify the Kyoto Protocol are invited to provide funding, which will be additional to the share of proceeds on clean development mechanism project activities.

28. **Eligibility:** Developing country Parties that are Parties to the Protocol.

#### **TRUSTEE FOR THE NEW FUNDS**

29. The World Bank serves as Trustee of the GEF Trust Fund. In this capacity, it holds in trust the funds, assets and receipts which constitute the GEF Trust Fund, and it manages and uses them only for the purposes of the GEF Trust Fund. The Trustee is accountable to the Council for the performance of its fiduciary responsibilities as set forth in Annex B of the GEF Instrument.

30. It is proposed that the Council invite the World Bank to serve as trustee for each of the new trust funds. In such capacity, the World Bank would be responsible for the financial management of each fund, including; (i) the maintenance of appropriate records and accounts for each fund and providing for their audit in accordance with applicable World Bank policies and procedures, (ii) the disbursement of monies from the funds in accordance with decisions made by the Council on the allocation of the funds' resources, (iii) the investment of liquid assets in the funds, (iv) the preparation of financial reports regarding the investment and use of the funds' resources; and (v) regular reporting to the Council on the status of the funds' resources. The privileges and immunities accorded to the World Bank under its Articles of Agreement would apply to the property, assets, archives, operations and transactions of the funds.

#### **PRELIMINARY INDICATIONS OF FUNDING**

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<sup>4</sup> In Decision 17/CP.7, paragraph 15(a), the Conference of the Parties decided, "that the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, as referred to in Article 12, paragraph 8, of the Kyoto Protocol, shall be two per cent of the certified emission reductions issued for a clean development mechanism project activity." Modalities and procedures will need to be considered and agreed by the Conference of the Parties for the collection and transfer of these funds.

31. At COP 7, Belgium, on behalf of the European Community and its Member States, and also on behalf of Canada, Iceland, New Zealand, Norway and Switzerland, made the following statement concerning financing for climate change related activities:

“We reaffirm our strong political commitment to climate change funding for developing countries. We are prepared to contribute US\$410 million, which is 450 million Euro, per year by 2005 with this level to be reviewed in 2008. Funding to be counted can include: contributions to GEF climate change related activities; bilateral and multilateral funding additional to current levels; funding for the special climate change funds, the Kyoto Protocol Adaptation Fund and the LDC Fund; and funding deriving from the share of proceeds of the clean development mechanism following entry into force of the Kyoto Protocol.”

32. Pending the establishment of the LDC Fund, the Government of Ireland deposited five hundred thousand Irish pounds in an interim holding Trust Fund established with the World Bank. It is expected that once the LDC Trust Fund is established, the Government of Ireland will request the Trustee to transfer these resources to the LDC Fund.

33. At COP7, the Government of Canada announced its intention to contribute ten million Canadian Dollars to the LDC Trust Fund. Pending the establishment of the Fund, Canada deposited a first installment of two million Canadian dollars to an interim holding Trust Fund established by the World Bank. It is expected that once the LDC Trust Fund is established, the Government of Canada will request the Trustee to transfer these resources to the LDC Fund.

## **NEXT STEPS**

### **Trustee to establish new funds**

34. The Council is requested to invite the World Bank to serve as Trustee of the new Trust Funds and to take the necessary steps to expeditiously establish the new funds.

### **Donor Meetings**

35. For the LDC fund, it is proposed that the GEF convene a donor meeting prior to COP8 (possibly July 2002) to solicit contributions to provide resources to finance the activities called for in the initial guidance approved at COP7.

36. For other trust funds, it is proposed that the GEF convene a donor meeting once guidance on program priorities has been provided by the Conference of the Parties and an assessment is made of the financial resources that will be required to carry out activities pursuant to such guidance.

### **Information sharing**

37. To promote the benefits of information sharing, the GEF has entered into consultations with the Secretariats of the global environmental conventions, the Implementing Agencies and other international institutions and bilateral organizations, on the development of a centralized database that will make available and facilitate ready access to operational and financial data on projects related to the global environment funded by GEF and other development organizations and agencies. Such a database would help to facilitate full information sharing and appropriate coordination amongst bilateral and multilateral activities in support of the UNFCCC. Information on activities financed under the new trust funds could be included in the database.

### **Report to COP8**

38. As requested by COP7, the GEF Secretariat will report to COP 8 on the arrangements that have been made for the establishment of these funds, based on the comments provided by the Council on this paper.

### **New Guidance to be reported to the Council at its meeting in May 2003**

39. The GEF Secretariat will inform the Council at its meeting in May 2003 of any guidance that is approved at COP8 concerning the new funds and will inform the Council on the steps that are being taken, or proposed to be taken, to implement such guidance.