



GEF

Global Environment Facility

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GEF Council
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Agenda Item 6c

OPERATION OF THE LDC TRUST FUND FOR CLIMATE CHANGE

Recommended Council Decision

Council took note of the progress in resource mobilization for the LDC fund and its operation in accordance with the initial guidance of the Conference of the Parties of the UNFCCC. The Council approves the corporate budget and Implementing Agency fee proposed for the two year period, FY 03-04. The Council requests the GEF Secretariat to keep it and the Conference of the Parties informed of progress with regard to the LDC fund.

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BACKGROUND

1. In May 2002 the Council approved the administrative arrangements proposed for the establishment of two new funds under the United Nations Framework Convention on Climate Change (UNFCCC) and one new fund under the Kyoto Protocol which the GEF was requested to operate by the Conference of the Parties to the UNFCCC (document GEF/ C.19/ 6). In doing so, the Council requested

- “(a) the World Bank to act as Trustee for the three new funds;
- (b) 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) 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.”

2. The Conference of the Parties of the UNFCCC adopted guidance to the GEF with regard to the Least Developed Countries Trust Fund at its seventh session (October - November 2001) and its eighth session (October – November, 2002). Accordingly, the Secretariat has moved ahead with making the LDC fund fully operational. The COP has not yet provided any guidance with regard to the Special Climate Change Fund, or the Adaptation Fund under the Kyoto Protocol, and therefore it has not been possible to mobilize resources for those funds or to make them operational.

LEGAL AND ADMINISTRATIVE ARRANGEMENTS

3. The Trustee has completed the legal and administrative arrangements necessary for the establishment and operation of the LDC fund as a separate trust fund (the Least Developed Countries Trust Fund for Climate Change, or the LDC Fund). As of March 31, 2003, agreements have been concluded between six donors (Canada, Finland, Ireland, Norway, Spain and Sweden) and the International Bank for Reconstruction and Development (the World Bank), as Trustee of the LDC Fund, with respect to administration of donors’ contributions to the LDC Fund (the Trust Administration Agreements). The LDC Fund is a multi-donor trust fund, separate and distinct from the GEF Trust Fund. Discussions are ongoing between the Trustee and the Implementing Agencies with respect to finalizing procedures for the transfer and disbursement of the LDC Fund funds and appropriate reporting requirements.

4. The GEF Secretariat has ensured separation of the LDC fund from the GEF Trust Fund both for purposes of operations and charging of administrative costs incurred on managing the fund. Council approval for administrative costs will be sought from time to time through separate proposals (as in this paper) and not through the GEF’s corporate budget, which applies to the GEF Trust Fund. Similarly, if work programs related to the LDC fund are prepared for Council

consideration, they will be presented separately from the regular work programs financed through the GEF Trust Fund.

RESOURCE MOBILIZATION

5. In consultation with the Secretariat of the UNFCCC and the Implementing Agencies, the GEF Secretariat's assessment of total funding requirements under the LDC fund pursuant to the guidance of the Parties for FY 03 and 04 is about US \$12 million, based on the COP decision that the first priority under the fund is support to LDCs for the quick preparation of national adaptation programs of action (NAPAs).

6. To mobilize resources to meet this requirement, a consultation with donors to the LDC fund was organized by the GEF Secretariat in Stockholm on September 26, 2002 at the kind invitation of the Swedish Government. Pledges amounting to over US \$11.6 million were announced or confirmed at the consultation while a number of other participants indicated that they were seriously considering making contributions to the fund, although they were unable to pledge specific amounts at the consultation.¹

7. By the end of March 2003, total contributions received amount to US\$ 8.70 million. Pledges in the further amount of US\$ 5.2 million are outstanding. The funding status of the LDC Fund as of March 31, 2003 is set out in Annex I, and the details of pledges and payments by each donor are set out in Annex II.

FURTHER COP DECISIONS / GUIDANCE

8. The GEF's arrangements for operating the LDC fund, and the results of the donor meeting of September 2002 were reported to COP 8 of the UNFCCC which met in New Delhi in October 2002. The COP welcomed both the arrangements made for operating the LDC fund and the progress in mobilizing voluntary contributions towards the fund. In addition to speedy and timely support for the preparation of NAPAs, the COP requested the GEF to support the organization of four regional workshops in 2003 in order to advance the preparation of NAPAs. The workshops are to be organized under the guidance of the Least Developed Countries Expert Group (set up under the UNFCCC), and support from the LDC fund is to be extended if sufficient voluntary funding has not been provided by other multilateral and bilateral sources.

OPERATIONS UNDER THE LDC FUND

9. As the Council was informed in May 2002, the GEF Secretariat carried out extensive consultations with experts from the LDCs, other experts, the UNFCCC Secretariat and the Implementing Agencies to prepare "Operational guidelines for expedited funding for the preparation of national adaptation programs of action by least developed countries." The

¹ For instance, Denmark subsequently pledged DKK 11.4 million.

guidelines were issued in April 2002,² and allow projects of up to \$200,000 per country to be approved through expedited procedures. By the end of March 2003, projects were approved for 8 countries while 9 other projects were at an advanced stage of consideration.³

10. In pursuance of guidance by COP 8 on regional workshops to advance the preparation of NAPAs (paragraph 8 above), UNDP has worked in consultation with the UNFCCC Secretariat and the LDC Expert Group to formulate a medium sized project, to be executed through UNITAR. Parallel funding for the effort has been committed by the Governments of France and Switzerland.⁴ The workshops will be organized between March and September, 2003. Funds available in the LDC fund, including the pledged amounts are estimated to be adequate to cover the costs of the workshops requested by the COP.

11. The GEF Secretariat is responsible for oversight of the fund, formulation of operational policies, review and processing of projects for CEO or Council approval, management of the portfolio of LDC fund projects, coordination with the Implementing Agencies, Trustee and the Convention Secretariat, and reporting to the Council and the Convention. For these activities, and for technical support to the process which may be required from time to time, it is estimated that the GEF Secretariat will require 12 staff weeks per year for FY 03 and FY 04.

12. The Implementing Agencies mainly engaged in assisting LDCs in the preparation of NAPAs⁵ have proposed a fee, for project cycle management services, equivalent to 11% of project costs for NAPAs, given the special nature of the fund and the complementarity with other enabling activity projects. NAPAs are a new area of work and the Implementing Agencies will need to establish procedures for preparing and processing projects, supervision, benchmarks for implementation, and monitoring and evaluation. Strong and sustained support to country teams will be needed, especially given the institutional challenges in LDCs and the need for extensive and complex consultations required to prepare NAPAs.

13. 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. The Trustee estimates a total of \$150,000 to cover such administrative expenses for FY03 and FY04. The key aspects of the Trustee's role for this two-year period include: putting in place the legal arrangements necessary to establish a separate multi-donor trust fund, including entering into a Trust Administration Agreement with each donor thereto, and entering into a financial procedure agreement with each Implementing Agency concerning the manner in which LDC funds will be transferred, disbursed and reported on;

² The guidelines were presented to the Council for information in May, 2002 (document GEF/ C.19/ Inf.7)

³ Approvals have been given for Cambodia, Eritrea, Haiti, Lesotho, Mauritania, Samoa, Tuvalu and Yemen. Proposals for Bangladesh, Comoros, Ethiopia, Gambia, Malawi, Mozambique, Sudan, Tanzania and Vanuatu are at an advanced stage of consideration.

⁴ UNEP and the GTZ have budgeted an additional \$130,000 to support training during the workshops and to produce training material for integrated environmental assessments and vulnerability assessments.

⁵ The World Bank has indicated that it is unable to suggest a specific fee figure in light of its limited experience with enabling activities, but for the present agrees with the proposal.

developing internal business processes and control procedures and related processes and procedures with the Implementing Agencies; setting up a separate data base for accounting and reporting purposes; and developing a management reporting framework for the LDC Fund.

14. The corporate budget for administering the LDC trust fund, and the Implementing Agency fee for FY 03 and FY 04, are thus together estimated at a total of \$ 1.47 million (Table 1).

Table 1: Estimate for FY 03 and FY 04 (million US \$)

GEFSEC costs	12 staff weeks per year for two years	0.144
Trustee	Lump sum for two years	0.15
Implementing Agency fees for NAPAs	11% of project costs	1.08 ⁶
Implementing Agency fees (MSP on LEG regional meetings)		0.083
TOTAL		1.469

⁶ Planning figure based on a work program of \$ 9.8 million supporting 49 NAPAs in the range of \$200,000 each.

ANNEX 1

LEAST DEVELOPED COUNTRIES FUND FOR CLIMATE CHANGE

Statement of Funding Status

As of March 31, 2003

		<u>Amount in US\$ *</u>
1.	Amount as per signed Contribution Agreement (<i>i + ii</i>)	8,698,185
	(<i>i</i>) <i>Cash contribution received</i>	8,698,185
	(<i>ii</i>) <i>Promisory notes received</i>	-
2.	Investment Income Earned	<u>42,917</u>
3.	Funds available for Commitment (1+2)	8,741,102
4.	Commitments made (<i>iii + iv + v</i>)	<u>1,586,165</u>
	(<i>iii</i>) <i>Commitments for projects</i>	1,586,165
	(<i>iv</i>) <i>Commitments for IA fees</i>	- <i>a/</i>
	(<i>v</i>) <i>Commitments for administrative budgets</i>	- <i>a/</i>
5.	Net Funds available for Commitment (3-4)	7,154,937 <i>b/</i>

* Valued on the basis of March 31, 2003 exchange rates.

a/ IA fees and Administrative budgets for FY03 - 04 to cover administrative and staff costs of the GEF

Secretariat, Implementing Agencies and Trustee are to be submitted for Council approval in May, 2003.

b/ Net Fund available does not include Pledges outstanding from Denmark & Netherlands shown in Annex III.

ANNEX 2

LEAST DEVELOPED COUNTRIES FUND FOR CLIMATE CHANGE

Pledges Outstanding

as of March 31, 2003

Donor	Currency	Contribution Pledged in Currency	Contribution Paid in Currency	Outstanding Pledges in Currency	Outstanding Pledges in US\$ *
Canada	CAD	10,000,000	9,999,980	20	14
Finland	EUR	500,000	500,000	-	-
Ireland	EUR	634,869	634,869	-	-
Norway	NOK	4,000,000	4,000,000	-	-
Spain	EUR	60,000	60,000	-	-
Sweden	SEK	3,000,000	3,000,000	-	-
Denmark	DKK	11,400,000	-	11,400,000	1,650,058
Netherlands	EUR	3,300,000	-	3,300,000	3,539,102
Total outstanding pledges in US\$ equivalent					5,189,173

* Valued on the basis of March 31, 2003 exchange rates.

