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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

Recommended Council Decision

The Council, having reviewed document GEF/C.24/12, *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*, endorses the programming document as an operational basis for funding of activities under the SCCF. The Council requests the Secretariat to make the document available for Parties participating in the tenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change to be convened in Buenos Aires in December 2004.

The Council requests the Secretariat to keep it informed of progress made in implementing the programs of the SCCF and to bring to its attention adjustments that may be required as experience is gained in financing on-the-ground projects.

Executive Summary

At the ninth session of the Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC) in December 2003, Parties agreed upon guidance for the operation of the Special Climate Change Fund (Decision 5/CP.9). The guidance provides that adaptation activities to address the adverse impacts of climate change are to have top priority for funding and that technology transfer and its associated capacity-building activities are also to be an essential area for funding. The decision invites the GEF to make the necessary arrangements to mobilize resources to make the fund operational without delay.

On the basis of this guidance, the GEF Secretariat, in consultation with the Implementing Agencies and the Convention Secretariat, has prepared this programming paper outlining the operational guidance to be followed in preparing proposals for financing from the Special Climate Change Fund (SCCF) during an initial five year period. The programming paper was also reviewed by potential donors to the SCCF at two meetings convened in Paris in July and September 2004.

On the basis of this programming document, funds will be mobilized to finance the activities described in the paper. The CEO will inform the Council meeting in November 2004 of resources pledged to the SCCF as of the date of the Council meeting. As additional guidance is approved, additional programs will be developed if necessary to respond to such guidance, and financing will be mobilized to fund those programs.

The Council is invited to review and endorse the programming paper.

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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), Parties agreed that:

“In order to meet the commitments under Articles 4.1, 4.3, 4.4, 4.5, 4.8 and 4.9, Parties included in Annex II, and other Parties included in Annex I that are in a position to do so, should provide funding for developing country Parties, through the following channels:

- (i) increased Global Environment Facility replenishment;
- (ii) the special climate change fund;
- (iii) the least developed countries fund;
- (iv) bilateral and multilateral sources.¹”

2. The Parties also requested the GEF, as an operating entity of the financial mechanism of the Convention, to operate the 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.

3. At the eighth session of the COP in October 2002, the GEF reported on the arrangements that had been made for the establishment of the funds. (See FCCC/CP/2002/4, *Report of the GEF to the Eighth Session of the Conference of the Parties to the UNFCCC* and GEF/C.19/6, *Arrangements for the Establishment of the New Climate Change Funds*.)

4. At the ninth session of the COP in December 2003, the Parties agreed to further guidance for the operation of the Least Developed Countries Fund (Decision 6/CP.9) and the Special Climate Change Fund (Decision 5/CP.9).

5. This paper presents proposals as to how the resources of the Special Climate Change Fund (SCCF) can be programmed during an initial five year period to respond to the guidance approved by the COP at its ninth session. On the basis of this program, funds will be mobilized to finance the activities described in this programming paper. As additional guidance is approved, additional programs will be developed if necessary to respond to such guidance, and financing will be mobilized to fund those programs. (See section below on Administration of the Trust Fund.)

¹ Decision 7/CP.7, *Funding under the Convention*, paragraph 1(c).

GENERAL PRINCIPLES TO BE APPLIED TO THE OPERATION OF THE FUNDS

6. Based on the discussions and decisions of COP7, it was reported to the nineteenth meeting of the GEF Council and the eighth session of the COP that the operations of the funds will be based on the following principles.
7. 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. If guidance from the Conference of the Parties concerning the modalities for operating the funds² call for other arrangements to be made, the Secretariat will elaborate policies and procedures for review and approval by the Council. Policies and procedures may also be brought to the Council's attention for review and approval as issues emerge through programming for the funds or 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.
8. 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 for the preparation of NAPAs in an expedited manner to least developed country Parties through the Least Developed Countries Fund.
9. 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 or the Council indicates otherwise.
10. 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.

² Decision 7/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.

11. 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 Fund³. The present paper has been developed in response to the guidance agreed by the Parties at COP9 for the SCCF to facilitate the effective implementation of that guidance. The GEF will prepare additional programs to facilitate the effective implementation of future guidance as needed.
12. Projects will only be proposed for approval by the Council or CEO to the extent that funds are available in the trust fund concerned.
13. 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. Administrative 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.
14. 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.
15. The GEF project cycle, including expedited procedures, and monitoring and evaluation policies and procedures will be applied in preparing and managing projects and programs. Other existing criteria for GEF funding concerning project effectiveness, such as country drivenness, ecological and financial sustainability, replicability, stakeholder involvement, monitoring and evaluation procedures, will also be applied to the projects financed under SCCF.
16. The World Bank has agreed to serve as trustee of the new funds.

SPECIFIC CHARACTERISTICS OF THE SCCF

Scope

17. 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; and

³ 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.

- (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.

Provision of guidance

18. The Conference of the Parties is to provide guidance to the entity operating the fund on the modalities for its operations, including expedited access.

19. At its ninth session, the Conference of the Parties approved further guidance to the GEF on the operation of the Special Climate Change Fund. In decision 5/CP.9, the Parties:

“1. *Decides* that:

- (a) The Special Climate Change Fund should serve as a catalyst to leverage additional resources from bilateral and other multilateral sources;
- (b) Activities to be funded should be country-driven, cost-effective and integrated into national sustainable development and poverty-reduction strategies;
- (c) Adaptation activities to address the adverse impacts of climate change shall have top priority for funding;
- (d) Technology transfer and its associated capacity-building activities shall also be essential areas to receive funding from the Special Climate Change Fund;

2. *Decides also* that the implementation of adaptation activities shall be supported through the Special Climate Change Fund, taking into account national communications or national adaptation programmes of action, and other relevant information provided by the applicant Party, and include:

- (a) Implementation of adaptation activities 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;

3. *Decides further* that resources from the Special Climate Change Fund shall be used to fund technology transfer activities, programmes and measures that are complementary to those currently funded by the Global Environment Facility taking into account national communications or any other relevant documents in accordance with decision 4/CP.7 and its annex containing the framework for meaningful and effective actions to enhance the implementation of Article 4, paragraph 5, of the Convention, in the following priority areas:

- (a) Implementation of the results of technology needs assessments;
- (b) Technology information;
- (c) Capacity-building for technology transfer;
- (d) Enabling environments;

4. *Decides further* that activities under paragraph 2 (c) and (d) in decision 7/CP.7 are also to be funded by the Special Climate Change Fund and to this effect invites Parties to submit to the secretariat, by 15 September 2004, further views on activities, programmes and measures in these areas for further consideration by the Subsidiary Body for Implementation, at its twenty-first session, in order for the Conference of the Parties to take a decision on this matter at its tenth session;

5. *Requests* the entity entrusted with the operation of the fund to arrange expedited access to the Special Climate Change Fund in keeping with current practices of the Global Environment Facility, taking into account the need for adequate resources to implement eligible activities, programmes and measures;

6. *Invites also* the entity entrusted with the operation of the fund to make the necessary arrangements to mobilize resources to make the fund operational without delay;

7. *Requests* the entity referred to in paragraph 5 above to include in its report to the Conference of the Parties, at its tenth session, the specific steps it has undertaken to implement this decision.”

Source of financing

20. Parties included in Annex II of the Convention, and other Parties included in Annex I that are in a position to do so, are invited to make contributions to the Special Climate Change Fund.

21. The GEF will ensure financial separation of the SCCF from other funds which the GEF operates.

Eligibility

22. Decision 7/CP.7 provides that funding from the SCCF is to be provided to developing country Parties. However, to date, the COP has not adopted an explicit definition of developing countries that differentiates them from non-Annex I Parties, although decisions 10/CP.5, 2/CP.7 and 6/CP.7 imply that the two terms are synonymous in the context of the Convention. It is noted, however, that some non-Annex I Parties have a level of Gross National Income (GNI) that is sufficiently high as to make them ineligible for World Bank lending or country assistance from UNDP. Pending more specific guidance from the Conference of the Parties, the GEF proposes to follow the practice that has been followed for purposes of the GEF Trust Fund: that is, all non-Annex I Parties are deemed to be eligible developing country Parties.

23. Activities to be financed from the SCCF will be complementary to those funded by the Global Environment Trust Fund of the GEF.

24. As agreed in decision 5/CP.9, adaptation activities to address the adverse impacts of climate change will have top priority for funding. Technology transfer and its associated capacity-building activities will also be essential areas to receive funding.

Financing and Modalities

25. Decision 5/CP.9 provides that the SCCF should serve as a catalyst to leverage additional resources from bilateral and other multilaterals sources. In financing projects under the Fund, efforts will be made to maximize co-financing from other sources.

26. Paragraph 5 of decision 5/CP.9 requests the GEF “to arrange expedited access to the Special Climate Change Fund, in keeping with current practices of the GEF, taking into account the need for adequate resources to implement eligible activities, programmes and measures.”

27. Activities to be financed under the SCCF will be based on COP guidance and existing operational practices and experience in all GEF focal areas, and will take into account information provided in national communications and other relevant information provided by the Parties.

28. It is foreseen that through the SCCF the GEF will be called upon to fund a combination of full size and medium size projects and small community level projects.

29. Financing for vulnerability and adaptation assessments as well as for technology needs assessments is already available to eligible Parties through the GEF enabling activities for climate change financed through the GEF Trust Fund consistent with guidance from the Conference of the Parties. Therefore, it should not be necessary to use an enabling activity modality for the SCCF.

30. It is proposed that if requested by an eligible Party, the institutional structure of the GEF Small Grants Program in the Party may serve as a useful mechanism for delivering SCCF financing for community-based adaptation or technology transfer activities through its country-based procedures and processes for disbursing funds quickly to small community projects. For countries which do not have a small grants program, appropriate modalities to finance community level projects, modeled on the elements of the SGP, may be established.

31. The GEF is also continuing its work on expediting its project cycle for full and medium sized projects, and all measures and procedures to streamline project preparation and implementation under the GEF Trust Fund will apply to project development under the SCCF. For example, for purposes of medium sized projects (MSP), steps are currently underway to implement new measures to expedite project processing. A principal objective of the MSPs is to promote rapid and efficient project execution by simplifying preparation and approval procedures and by shortening the project cycle relative to GEF full-sized projects. In 2002, an evaluation concluded that MSPs have, amongst other benefits, broadened and legitimized partnerships and multilateral relationships that improved collaboration between NGOs, governments, research institutions, the private sector and the GEF, and that the capacity at local and national levels has been increased. However, the evaluation noted that expedited procedures envisaged for the MSPs had fallen short of expectations. The evaluation concluded that although the average elapsed time for MSPs is significantly less than that for full-sized projects, there is clearly scope for improvement in MSP processing times.

32. As a follow-up to the MSP evaluation, the GEF organized a MSP Working Group to review the recommendations from the evaluation with the objective of exploring proposals to improve the procedures for the development, approval and implementation of MSPs.

33. The group has agreed on a number of steps to shorten the MSP processing time that will be implemented by the GEF together with a number of recommendations that will be presented to the Council for approval at its meeting in November 2004. Among these will be a proposal for new procedures to further streamline the project cycle for smaller size MSPs, i.e., those not requiring more than \$250,000 in GEF financing. As these proposals are implemented, the procedures will provide greater opportunities for expedited financing under the SCCF.

34. The Council will also be considering proposals to expedite the project cycle for full sized projects.

35. As noted in paragraph 20, Parties included in Annex II of the Convention, and other Parties included in Annex I that are in a position to do so, are invited to make voluntary contributions to the SCCF. The GEF will work with Parties to provide an initial level of funding

that will allow the fund to begin financing activities consistent with this paper and the guidance provided by the COP9 in 2003. It is expected that as the fund demonstrates that activities which it finances produce result and impacts consistent with its objectives and realistic operational guidelines, donor confidence will be enhanced and additional support will be forthcoming.

Administration of the Trust Fund

36. For purposes of the administration of the SCCF Trust Fund, the Bank, as trustee of the Trust Fund, will conclude with each donor a trust fund administration agreement (the administration agreement), which governs the donor's contributions to the Trust Fund. The administration agreement will incorporate standard provisions applicable to all contributions to the Trust Fund, addressing, *inter alia*, arrangements governing the maintenance of the Trust Fund, investments of resources, recovery of administrative costs, use of resources, procurement of goods, accounting and financial reporting, auditing, and disclosure of information.

37. With regard to the use of resources, resources will be mobilized and pledged to specific programs to be financed from the Trust Fund. The scope and number of the programs will be developed by the GEF Secretariat on the basis of the guidance received from the Conference of the Parties and endorsed by the GEF Council.⁴ Donor contributions will be pledged and contributed for a specific program, and separate financial records and accounts will be maintained for each program within the Trust Fund. Projects will be financed from a specific program under the Trust Fund. When projects are approved by the GEF Council or CEO for financing, the project will specify from which program it is to be financed. This information will also be provided to the Trustee, and the Trustee will commit and transfer project funds to the Implementing Agencies only from the specified program so approved by the GEF Council or CEO. Mobilization and pledging of funds will be coordinated by individual programs.

38. All funds pledged and contributed to any program under the Trust Fund will be co-mingled for investment purposes, and investment income earned on the Trust Fund will be allocated and credited to the account of each program under the Trust Fund on a pro rata basis. In keeping with other multidonor trust funds managed by the Bank as trustee, investment income earned by the Trust Fund will be used for the same purposes as the contributions and will be available for allocation of funds for projects. Investment income earned on the Trust Fund funds will not be returned to donors.

39. The Trustee will report to the GEF Council on the status of the Trust Fund, including the detailed financial information on contributions, allocations, trustee commitments and cash transfers to Implementing Agencies regarding the programs within the Trust Fund.

⁴ For instance, based on the guidance from the ninth session of the Conference of the Parties, this document presents two programs, one on adaptation and another on technology transfer.

PROGRAM FOR ADAPTATION

Programming Principles

40. Activities to be funded will:
- (a) be country-driven, cost-effective and integrated into national sustainable development and poverty-reduction strategies; and
 - (b) take into account national communications or NAPAs and other relevant studies and information provided by the Party.
41. It is recognized that climate change impacts fall most heavily on those least able to respond, and often on those that contributed very little to its causes. Adaptation activities financed under the fund will seek to assist the most vulnerable countries and those within a country with the greatest need. Activities will therefore seek to recognize the link between adaptation and poverty reduction.
42. Adaptation measures will be implemented where sufficient information is available to warrant such activities.

Activities to be financed

43. The Fund will assist countries to assess to what extent development projects in the areas identified in the paragraph below are at risk from the impacts of climate change. An objective of adaptation activities financed under the fund will be to support capacity building, including institutional capacity, to make project preparatory work, constituency building, and awareness raising more informed of the likely implications of and changes brought on by climate change. Activities will focus more on prevention than on reaction, as is often seen in conventional efforts to cope with climate variability, extreme weather events and climate change. Where possible, activities that prevent additional impacts from climate change will be identified.
44. Activities will be implemented, *inter alia*, in the following areas:
- (a) Water resources management;
 - (b) Land management;
 - (c) Agriculture;
 - (d) Health;
 - (e) Infrastructure development;
 - (f) Fragile ecosystems (including mountain ecosystems); and
 - (g) Integrated coastal zone management.
45. Activities will be funded to improve the monitoring of diseases and vectors affected by climate change and related forecasting and early warning systems, and in this context to improve disease control and prevention.

46. The Fund will support capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning for droughts and floods in areas prone to extreme weather events.

47. The Fund will also support strengthening existing and, where needed, assist in establishing national and regional centers and information networks for rapid response to extreme weather events, utilizing information technology as much as possible.

48. Where appropriate, the Fund will also finance activities to promote the transfer of technologies related to adaptation. Methodologies to assess technology needs for adaptation will be consistent with the approach adopted by the technology needs assessments (TNAs) under the national communications.

Coordination with other institutions

49. The GEF will seek to coordinate with international and regional organizations whose expertise and experience is relevant to measures to address adaptation, particularly taking into account the areas to be addressed by the fund (see paragraph 44) which may require expertise beyond that currently available in the GEF.

Additional Cost of Adaptation

50. Under general principles for the operation of the SCCF, it is noted that the operational policies and procedures and governance structure of the GEF will apply to the operation of all the funds, unless the Council agrees, or the Conference of the Parties determines through guidance concerning the modalities for operating the funds, that other arrangements should be made. Any additional operational policies that may be required for the operation of the funds are to be brought to the Council's attention for review and approval as issues emerge in developing programs or specific project proposals.

51. Decision 5/CP.9 provides that the SCCF should serve as a catalyst to leverage additional resources from bilateral and other multilaterals sources. For purposes of addressing adaptation, it is proposed that the Council agree that the fund be available to finance the additional costs of achieving sustainable development imposed on vulnerable countries by the impacts of climate change. This approach would be most appropriate to address the challenges faced by developing country Parties as a result of the impacts of climate change. The need to adapt to the adverse impacts of climate change presents additional barriers to the achievement of a country's sustainable development goals. Activities to overcome some of these barriers may lead to the generation of global environmental benefits (e.g. maintaining the resilience of ecosystems) whereas addressing others may not (e.g. activities in the health and water sectors.)

52. Several examples might help clarify the differences between situations where adaptation projects produce identifiable global benefits and situations where adaptation projects produce few, if any, global benefits, but help the country better achieve the sustainable development goals which are being pushed further from their grasp through global warming. If a project

rehabilitates tidal mangrove resources as a protection against sea-level rise and coastal erosion, it might be expected to contribute global benefits measured as improved habitat for biodiversity as well as the local benefits of coastal protection. In contrast, in certain small-island or dryland countries, rainfall patterns may change so that the same total quantity of precipitation falls, but it falls in fewer cloudburst events. In such cases, the country may request project support to improve rainwater harvesting, which would help provide water for human consumption, but have little or no impact delivering global benefits. While in the former example, incremental costs could be provided for the sake of the project's provision of global biodiversity benefits, in the latter case, funding could be provided to meet the additional costs imposed on the country by climate change in attempting to meet its sustainable development goals.

53. The SCCF may be called upon to support climate change adaptation activities that generate benefits by alleviating barriers to development caused by the effects of climate change and which may be primarily local benefits whereas the GEF Trust Fund may be called upon to support adaptation activities primarily linked to producing global environmental benefits through its various focal areas. This is a key concept in achieving the complementarity between the two funds.

54. While it is recognized that a single project is likely to generate both local and global benefits, determination of the most appropriate source of financing for a project (the GEF Trust Fund or the SCCF) would be guided by the primary objectives of the project and whether the majority of benefits to be generated will be related to global environmental goals or national sustainable development goals of the country. Financing from the two funds will not be co-mingled in a single project.

55. This approach is graphically described by Figure 1, which illustrates that a baseline scenario includes both current development (A: what would occur in absence of climate change) as well as measures necessary to achieve desired sustainable development and which are financed by national resources as well as bilateral and multilateral development assistance (B: responsibility of the country) plus a number of additional activities (C_T : adaptation increment) that consists of activities that will need to be undertaken in response to global warming. The diagram also shows that there are some activities that generate global environmental benefits (D) some of which are linked to adaptation and others which are not and do not necessarily increase resilience to climate change. These activities represent the conventional range of activities in all the existing GEF focal areas (climate change-mitigation, biodiversity, international waters, land degradation, POPs). The diagram demonstrates that the range of adaptation options (C_T) consists of those which yield global benefits (C_1) and those which do not (C_2). Incremental cost financing from the GEF Trust Fund would be available for those adaptation activities primarily yielding global benefits (C_1) whereas, additional cost financing from the SCCF would be made available for those adaptation activities that yield primarily local benefits (C_2). Figure 1 is an useful tool to graphically represent the proposed complementarity between the GEF Trust Fund and the SCCF.⁵

⁵ More detailed information on adaptation is included in the Council paper GEF/C.23/Inf.8/rev.1 *GEF Assistance to Address Adaptation*, attached as Annex 1.

56. In order to expedite the processing of financing under the SCCF, it is also proposed that this approach to additionality and leveraging may be applied pragmatically by adopting a presumptive co-financing sliding proportional scale: the larger the total cost of the project, the greater the required percentage of co-financing. Adopting such a scale would allow a project to go forward without project-by-project negotiations on the determination of additional costs of adaptation if the requested SCCF financing and proposed co-financing fell within the agreed scale. For projects that required proportionally more financing from the SCCF than that permitted by the scale, a justification for the additional costs would have to be made.

57. The proportional scale is designed so that the GEF will fund a larger share of smaller projects with limited funding needs than it will for larger projects with more ambitious funding requirements. Drawing on past experience and practices,⁶ the following rules will be applied⁷:

- (a) if a project requires less than \$1m of funding, SCCF financing will be available for up to 50 percent of the project financing;
- (b) for projects requiring between \$1 and \$5m of funding, the SCCF will finance up to one third of the costs of the project.
- (c) for projects requesting more than \$5m, the SCCF will finance up to one quarter of the total project costs.⁸

This scale will be kept under review and any proposed changes will be presented to the Council for approval.

⁶ Portfolio wide averages of GEF financing in projects are approximately at the following levels: one third of financing in biodiversity projects; one fifth of financing in climate change projects; and one quarter of financing in land degradation.

⁷ Consistent with the GEF policy on co-financing (see Council document GEF/C.20/6/Rev.1) sources of co-financing include:

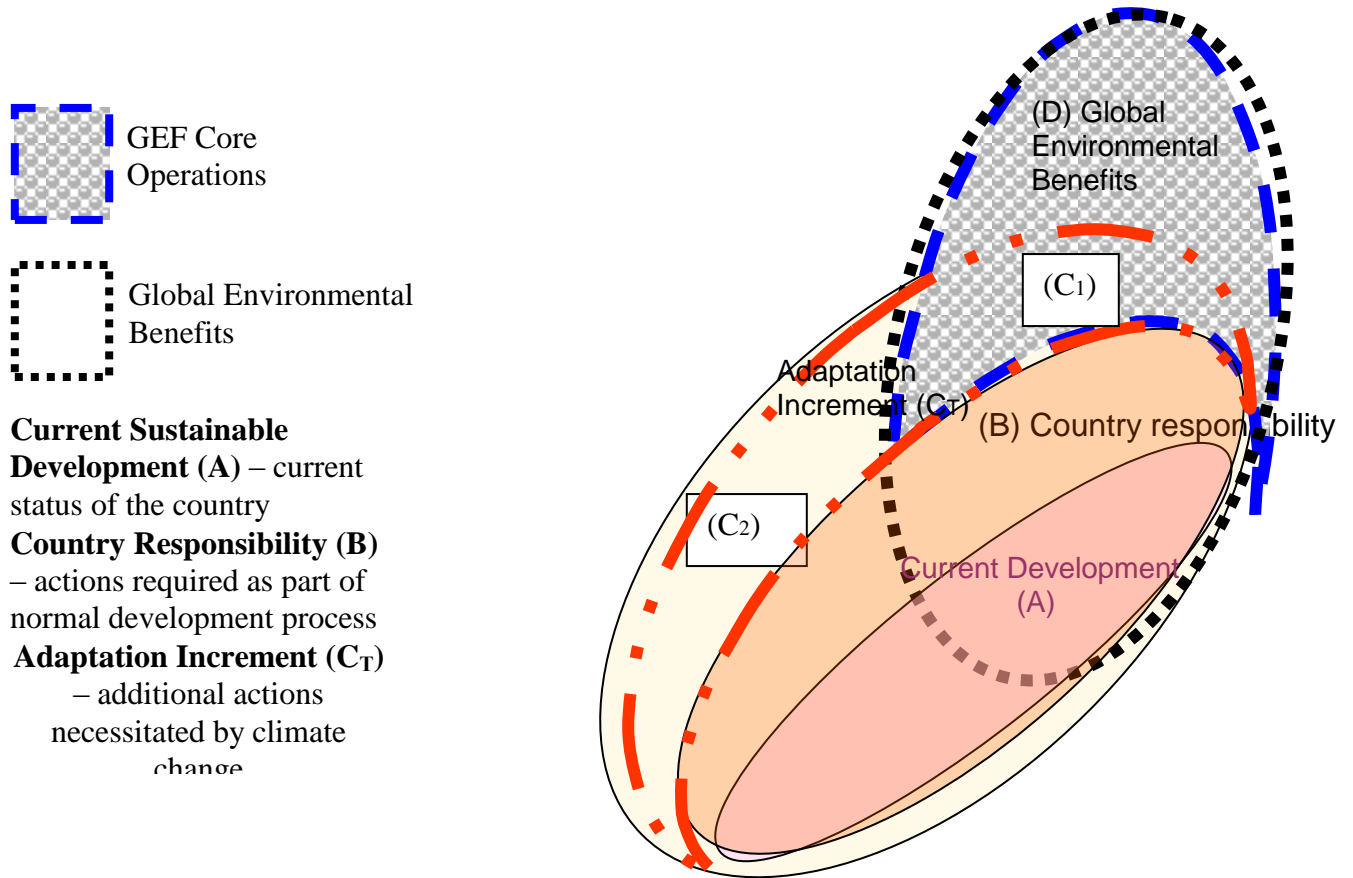
- (a) financing from the GEF Implementing Agency;
- (b) government co-finance (counterpart commitments) e.g., for baseline or foundational activities upon which the project would build or without which the project could not be implemented; and
- (c) contributions mobilized for the project from other multilateral agencies, bilateral development cooperation agencies, NGOs, the private sector, and beneficiaries.

Types of co finance may include:

- (a) Grants;
- (b) Loans, concessional or market-rate;
- (c) Credits;
- (d) Equity investments; and
- (e) Committed in-kind support.

⁸ It may also be useful to establish an upper limit to the trust fund resources that may be allocated to any one project. Such a limit may best be established after taking into account the total resources available to the fund.

Figure 1. Adaptation and Incrementality



Current Sustainable Development represents a business as usual (BAU) baseline (what would happen in the absence of climate change) (A);

Country responsibility includes measures that help avoiding maladaptation, such as policy distortions, etc – as a responsibility of the government (B);

Adaptation increment includes the adaptation activities that generate global environmental benefits (C₁) as well as activities that do not produce global benefits (C₂) but that increase resilience to climate change and are necessary to help the country meet the additional challenges to sustainable development brought on by climate change;

Therefore, the entire Adaptation Increment = C_T = C₁ + C₂;

The diagram also includes activities that generate GEB but do not necessarily increase resilience to climate change (D).

PROGRAM FOR TRANSFER OF TECHNOLOGIES

Programming Principles

58. Activities to be funded will:
- (a) be country-driven, cost-effective and integrated into national sustainable development and poverty reduction strategies;
 - (b) serve as a catalyst to leverage additional resources including bilateral and multi-lateral sources, private sector and NGOs; and
 - (c) be based upon recommendations from national communications, technology needs assessments (TNAs), and other information provided by the Party.

Activities to be Financed

59. Efforts to transfer technology under the SCCF will focus on the transfer of environmentally sustainable technologies, concentrating on, but not limited to, technologies to reduce emissions or atmospheric concentrations of greenhouse gases. The transfer of technologies targeting adaptation will be addressed and funded under adaptation activities (see above).

60. In keeping with the guidance from the Convention in Decision 5/CP.9 the SCCF will support:

- (a) implementation of the results of technology needs assessments;
- (b) technology information;
- (c) capacity-building for technology transfer; and
- (d) enabling environments.

61. As the transfer of environmentally sustainable technologies is a complex process that ultimately requires successful investment, cooperation between a multitude of stakeholders is necessary to ensure its success. Support to be provided from the SCCF will seek to take fully into account and be complementary to the plethora of other avenues for financing of the transfer of clean technologies.

62. Government agencies, industry, financial intermediaries, the private sector, and civil society all have a role to play in the transfer of clean technologies. Technology transfer lies at the heart of the business operations of many private-sector corporations. As technology transfer also lies at the heart of development assistance, many global, regional and national organizations are already actively involved in the technology transfer process.⁹

⁹ For example, development banks, UN agencies, bilateral aid agencies and many NGOs also have technology transfer as one of their key objectives

63. The GEF Trust Fund also finances the transfer of technologies through its Operational Programs for energy efficiency, renewable energy, and sustainable transport. For example, many Parties have already obtained financing from the GEF Trust Fund to facilitate the transfer of technologies dealing with wind-power generation, energy-efficient refrigerators, or fuel-efficient boilers. GEF support has been provided to help governments improve enabling environments, develop legal frameworks, adapt technologies to local conditions and develop technology standards in order to facilitate the transfer and establishment of environmentally sustainable and climate-friendly technology. The GEF Trust Fund will continue to finance technology transfer through its investment projects.

64. The GEF Trust Fund is also financing the preparation of technology needs assessments as requested by the Conference of the Parties. The GEF Trust Fund, however, has not received specific guidance to finance the capacity building related to technology transfer as listed in the guidance of the SCCF program. Therefore, the activities to be financed through the two funds will be fully complementary. Implementation of technology needs assessments can be financed from the SCCF, which will primarily address capacity building needs identified in the assessments as well as capacity building related to technology information and enabling environments.

65. It is proposed that support from the SCCF be channeled through a number of targeted technology-specific programs that will serve to provide information and assistance to strengthen capacity with regard to specific priority technologies. The programs will be a useful modality for ensuring active collaboration with the many actors playing a role in the transfer of clean technologies.

66. Initially, the Fund will focus on a number of technologies and their application that are of high interest to a large number of countries as evidenced in their technology needs assessments and national communications¹⁰. Each program will seek to address for the specific priority the four priorities mentioned in the guidance for the SCCF.

67. As there are an extremely large number of clean technologies related to climate change abatement, a first step will be the identification of some key technologies with the potential to mitigate a large quantity of GHG emissions and that are of high priority to a large number of developing country parties. Evidence of country priorities will be sought through the TNAs and national communications. The next step will be to identify a partner to assume responsibility for managing the central functions associated with the program. Among these will be assuring easy access by developing country Parties to technology-specific information. This information will not only document performance attributes of available technological options, but also will detail the prerequisite conditions for its successful transfer. The program will seek to assure easy access to information through existing information networks, such as industry associations, information clearinghouses or NGOs. The program will also bring together partners willing to assist developing countries in acquiring the technology addressed by the program and to promote

¹⁰ TT:Clear of the UNFCCC can play a useful role in providing and sharing information on technologies of high interest to a large number of countries

collaboration by serving as a forum to bring together all those having a role to play in the transfer of the specific technology.

68. The second element of a technology transfer program will focus on building local capacity and improving the local enabling environment to facilitate the transfer of technology. In cases where existing local circumstances and available resources are judged to be insufficient to meet identified needs in capacity and enabling environments for successful transfer of the specific technology, the Fund may support country-based activities to address the identified needs with a view to ensuring dissemination of the specific technology in the country. Depending on the scope and interdependence of the capacity that needs to be strengthened, assistance may be delivered through a country-based, technology specific program of activities addressing the particular needs of that country or through one or more independent projects.

69. Where the actual transfer of technology requires investment finance, it is anticipated that other financing sources will be used to make the investments. In cases where existing avenues are available to support the desired transfer of technology, the program will be available to facilitate cooperation between the participating Parties and the technology transfer agents and funders. Participating Parties will be encouraged to work with development banks, UN agencies, private-sector corporations, and other multi-lateral and bilateral programs best placed to ensure the required investments. Carbon finance, for example, may be one avenue open to assisting a participating Party in making the necessary investments. The GEF Trust Fund will continue to fund technology transfer activities for those technologies that are considered to be eligible under current programming criteria.

70. The technology transfer program will also be available to finance pre-feasibility studies when such financing proves to be a constraint to the technology transfer process. The program will not, however, finance the investment costs associated with technology transfer beyond support for such pre-feasibility studies.

71. An example may serve to clarify the intended operations of the technology programs. If a number of countries were interested in the transfer of improved boiler technologies, one Implementing Agency could prepare a proposal for a technology transfer program focusing on improved boilers. The proposal would then be prepared and submitted, requesting funding for a coordination unit—based either at a location of the Implementing Agency or at a center of excellence in a developing country—to prepare information, host training workshops, and assist country teams in the evaluation and capacity building activities. The proposal would also include endorsements from those countries having expressed interest in the program and request a pre-determined country budget for each participating country. It would be submitted to the GEF for funding under the SCCF and if judged to be of high quality and consistent with the priorities and criteria outlined in this paper, the proposal would be submitted to the Council for approval¹¹. Once approved, the coordination unit would assemble information on the technology, the technology providers, and conditions for successful transfer; identify private sector partners with

¹¹ If the proposal were a medium-sized project, the CEO would be requested to approve it in accordance with the project cycle for medium-sized projects.

an interest to expand their market to the participating countries; and organize training programs for the country teams. Each country team would have a pre-determined funding allocation to pay for the training, capacity building, and technical assistance activities designed to meet their costs of participating effectively in the program. Through the information and training activities, the program coordination unit would help the country teams develop a meaningful initiative to transfer improved boilers to consumers in the program country.

72. To reiterate the point made earlier, the SCCF is not expected to provide investment capital for the transfer of technologies. Other sources would be expected to be used for the actual investments. The exact nature of the investment source will depend upon the technology, its characteristics, and its availability in the global market. For the example of the boiler program, the financing of the new investment might come through vendor financing provided by the boiler manufacturers, export credit agencies supporting individual vendors or from local commercial financing sources. For other cases, such as the transfer of landfill gas utilization technology in the waste management sector, carbon finance might be expected to supplement commercial financing or vendor financing to make the investments more economically attractive than they might be otherwise.

73. In cases where there is a particular need for assistance with regard to a specific technology that is not covered by any technology transfer program, the Fund will also be available to finance small, stand-alone capacity building activities or activities to strengthen the enabling environments that are linked to a technology transfer priority of a Party expressed in its national communication or technology needs assessment. For example, there may be a need for cross-sectoral assistance in developing national legislation to improve a country's enabling environment or the need for a training workshop on a specific technology.

Incremental Costs of Technology Transfer

74. The Fund will finance the incremental costs of technology transfer activities, and will seek to serve as a catalyst to leverage additional resources for the transfer of technology. The incremental costs will be those costs directly associated with securing the global benefits arising from the wide scale adoption of clean technologies in participating countries. Financing will be directed towards building the capacity of developing country Parties to overcome the barriers preventing the introduction of the clean technology in the country. Because of the large number of avenues available for funding technology transfer, care must be taken to ensure that the proposals are truly additional to existing avenues of support. Incremental analysis of proposals for consideration will focus on defining the additional costs of the proposed activities; demonstrating how they are distinct from but make use of existing programs; and how the technology transfer process would be completed, that is, what are the avenues envisioned for the eventual investments.

Modalities

75. Funding through the technology transfer programs is expected to have both a programmatic (central) component that will make available common information and training

specific to the technology being addressed and individual country components that will supplement the programmatic activities by addressing country-specific needs beyond those addressed in the common program. The programmatic component will support the development of information kits, workshop programs, and information and network facilitation activities. The number of individual country components will depend on the interest of Parties to actively participate in the respective technology transfer program, their country-specific needs and the availability of other sources of financing. The country components will finance the participation of key country representatives in programmatic activities as well as enabling environment support that will be necessary for that participating Party to successfully utilize the newly available technology.