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ELEMENTS TO BE TAKEN INTO ACCOUNT IN FUNDING THE IMPLEMENTATION OF NAPAS UNDER THE LDC FUND

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I. INTRODUCTION

1. At the ninth session of the Conference of the Parties to the UNFCCC further guidance was provided for the operation of the Least Developed Countries Fund. This guidance called for the fund to support the implementation of national adaptation programs of action (NAPA) as soon as possible after their completion and listed a number of elements to be taken into account in developing operational guidelines for funding of NAPAs.
2. Recognizing that the NAPAs are yet to be completed, the following paper focuses on the next steps that will be followed once a NAPA is completed.

II. DECISION OF THE CONFERENCE OF THE PARTIES AT THE NINTH SESSION ON FURTHER GUIDANCE FOR THE OPERATION OF THE LEAST DEVELOPED COUNTRIES FUND

3. Decision 6/CP9, provides the following further guidance for the operation of the Least Developed Countries Fund

The Conference of the Parties

Recalling its decisions 5/CP.7, 7/CP.7, 27/CP.7, 28/CP.7 and 8/CP.8,

Noting that the Least Developed Countries Fund supports the implementation of the Convention, contributes to the achievement of the World Summit on Sustainable Development and the Millennium Development Goals, and contributes to the integration of climate change considerations into development activities,

Noting also that the Least Developed Countries Fund will contribute to the enhancement of adaptive capacity to address the adverse effects of climate change, including, as appropriate, in the context of national strategies for sustainable development,

Noting also with appreciation efforts by the Global Environment Facility in developing expedited procedures for funding the preparation of national adaptation programmes of action and for its efforts to mobilize resources for the Least Developed Countries Fund,

1. *Decides* to adopt the further guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Least Developed Countries Fund, as set out in paragraphs 2 and 3 below;
2. *Requests* the entity to support the implementation of national adaptation programmes of action as soon as possible after their completion;
3. *Requests* the entity to take into account, inter alia, the following elements when developing operational guidelines for funding of the implementation of national adaptation programmes of action:
 - (a) Ensuring a country-driven approach, in line with national priorities, which ensures cost-effectiveness and complementarity with other funding sources;

- (b) Equitable access by least developed country Parties to funding for the implementation of national adaptation programs of action;
- (c) Criteria for supporting activities on an agreed full-cost basis, taking account of the level of funds available;
- (d) Guidelines for expedited support;
- (e) Urgency and immediacy of adapting to the adverse effects of climate change;
- (f) Prioritization of activities;

4. *Requests* Parties to make completed national adaptation programmes of action available to the Global Environment Facility and to the secretariat for further dissemination to the Parties;

5. *Requests* the entity to include in its report to the Conference of the Parties information on the specific steps it has undertaken to implement this decision as well as the preparation of national adaptation programmes of action;

6. *Decides* to assess progress in the implementation of this decision and consider the adoption of further guidance at its tenth session.

III. PREPARATION OF NAPAS

4. In accordance with decision 27 of the seventh session of the Conference of the Parties to the UNFCCC, the LDC Fund, “as a first step, [is providing] funding 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.”¹ As of September 2004, projects for the preparation of National Adaptation Programs of Action (NAPAs) in 43 countries have been approved (list of NAPAs projects attached). The total approved resources for 43 national NAPAs and two global support projects is US\$ 9,415, 219².

5. Among the 48 Least Developed Countries (LDC) Parties to the UNFCCC, five (Angola, Equatorial Guinea, Myanmar, Nepal, and Solomon Islands) are currently not receiving financing for the preparation of NAPAs. Solomon Islands is currently working with UNDP, in consultation with UNEP, to prepare a project proposal. UNEP is working with Myanmar, Nepal, to prepare their project proposals. UNDP and UNEP have agreed to consult in order to initiate work with Angola and Equatorial Guinea on developing their project proposals.

6. Most of the approved projects foresee the completion of the NAPA within a period of 12 to 18 months. It is expected that the first NAPAs will be completed in the first three months in 2005³. The expected date for the finalization of NAPAs for most countries falls in the second half of 2005.

¹ Decision 27/CP.7, paragraph 1(a).

² The number does not include 11% fees for the Implementing Agencies.

³ UNDP’s rough estimation of completion date is early 2005 for the following countries: Bangladesh, Cambodia, Eritrea, Ethiopia, Malawi, Mozambique, Samoa, Sudan, Tuvalu and Yemen.

IV. CONTENT OF NAPAS

7. In Decision 28/CP.7, the Parties adopted guidelines for the preparation of NAPAs. Consistent with the guidelines, NAPAs are to communicate priority activities addressing the *urgent and immediate needs and concerns* of the least developed countries (LDCs) relating to adaptation to the adverse effects of climate change. Activities to be proposed in NAPAs may include, *inter alia*, projects, integration of adaptation into other activities, capacity building and policy reform.
8. The rationale for preparing, developing and funding NAPAs rests on the low capacity of LDCs, which renders them in need of immediate and urgent support to start adapting to current and projected adverse effects of climate change. Activities proposed through NAPAs would be those whose further delay could increase vulnerability or lead to increased costs at a later stage.
9. The NAPA will be a means for the dissemination of an individual LDC's proposed program of action to address its urgent needs for adaptation.
10. In accordance with the guidelines, NAPAs are to be presented in the form of a document specifying a list of priority activities, with a concise justification based on a tight set of criteria.
11. NAPAs are expected to be easy to understand, action-oriented and country-driven, and it should set clear priorities for urgent and immediate adaptation needs as identified by the countries. The preparation is expected to follow a complementary approach, building upon existing plans and programs, especially consistent with action plans in response to CBD and CCD guidance. In addition, the preparation is to be guided by: a participatory process including all relevant stakeholders, especially local communities; a multidisciplinary approach; sustainable development; gender equality; country-drivenness; sound environmental management; cost-effectiveness; simplicity and flexibility of procedures based on individual country circumstances.
12. The NAPA document is to consist of the following sections:
 - (a) *Introduction and Setting* – background information on how climate change and climate variability adversely impact biophysical processes and key sectors;
 - (b) *Framework for Adaptation Program* – description of the NAPA framework and its relationship to the country's development goals to make the framework consistent with socio-economic and development needs; description of goals, objectives and strategies of the NAPA, taking into account other plans and multilateral environmental agreements; when possible, the framework should describe the potential barriers to implementation;
 - (c) *Identification of key adaptation needs* – identification of past and current practices for adaptation to climate change and variability as related to existing information regarding the country's vulnerability to the adverse effects of climate change, climate variability and extreme weather events, as well as the long-term climate

change. This section should identify relevant adaptation options including capacity building, policy reform, integration into sectoral policies and project-level activities;

- (d) *Criteria for selecting priority activities* – a set of locally-driven criteria will be used to select priority adaptation activities. These criteria include, *inter alia*:
 - (i) level of degree of adverse effects of climate change;
 - (ii) poverty reduction to enhance adaptive capacity;
 - (iii) synergy with other multilateral environmental agreements;
 - (iv) cost-effectiveness;
- (e) *List of priority activities* – this section is to include a list of priority adaptation activities selected consistent with the criteria listed above. For each of the selected priority activities a set of profiles will be developed for inclusion in the NAPA document.

V. STEPS TO IMPLEMENT NAPAS

13. Adaptation activities financed under the fund will seek to assist the most vulnerable within a country and those with the most immediate need. Activities will therefore seek to recognize the link between adaptation and poverty reduction.

14. Activities to be funded will be:

- (a) country-driven, consistent with national priorities, cost-effective and complementary to other funding sources;
- (b) integrated into national sustainable development and poverty-reduction strategies as appropriate; and
- (c) clearly identified in a NAPA reflecting the prioritization assigned in the NAPA.

VI. PROJECT IMPLEMENTATION

15. 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 it is proposed that the funds currently committed to the LDC Fund be immediately available to assist LDCs to begin to implement their completed NAPAs.

16. Recognizing that the resources currently available are limited, the GEF will work with eligible Parties that have completed their NAPAs to finance each country's highest priority activity, taking into account floors and ceilings (see paragraph 30) for any one country, to ensure that as NAPAs are completed, all eligible Parties are able to call upon the Fund for assistance. As soon as additional resources are mobilized (see paragraph 29 below) additional priority

activities can be considered for financing. This is consistent with the concern expressed in decision 6/CP.9 that steps be taken to facilitate equitable access by LDC Parties to funding.

17. Without knowing the content of any NAPA, it is difficult to predict what the highest priority activities will be. However, from a survey conducted by the UNFCCC Secretariat during the twentieth session of the UNFCCC subsidiary bodies, when LDC representatives were asked to anticipate the types of sectoral activities likely to be identified as priority in their NAPAs, the two sectors most mentioned for potential inclusion of NAPA projects are agriculture and water resources. The twelve sectors reported as having the highest priority are:

Sector	Frequency
Agriculture	29
Water Resources	28
Coastal zone/marine resources	16
Health	14
Energy	14
Forests	10
Livestock	4
Transport	4
Tourism	4
Early warning/disaster management	3
Biodiversity/natural ecosystems	3
Industry	3

18. As recognized in the guidelines for NAPA preparation, it is expected that within the above mentioned sectors, priority activities may include capacity building, policy reform, integration of the actual and potential adverse effects of climate change into sectoral policies, and project level activities to finance actions to mitigate the actual and potential adverse effects.

19. Drawing from GEF experience, it is expected that full cost financing may be appropriate for many of the activities related to capacity building, policy reform and integration of the effects of climate change into sectoral planning.

20. Other resources will be used to meet the additional cost of achieving sustainable development imposed by the impacts of climate change with respect to the priority activities designed to address urgent and immediate needs, including project level activities to finance actions to mitigate the actual and potential adverse effects. This approach to financing additional costs is similar to that which will be followed in the Special Climate Change Fund, but in the LDC Fund, resources will be used only for the urgent and immediate needs identified in a NAPA. For other adaptation needs faced by an LDC (outside a NAPA), application may be made to the SCCF for financing.

21. In order to expedite the processing of financing under the LDCF, it is also proposed that this approach to additionality be applied pragmatically by adopting a presumptive co-financing

proportional scale. If the requested LDC Fund financing and proposed co-financing are within the norms set by the agreed scale, a project may go forward without project-by-project negotiations on the determination of additional costs of adaptation. For projects that require proportionally more financing from the LDC Fund than permitted by the scale, a justification for the additional costs will need to be made.

22. The proportional scale is designed so that the LDC Fund will fund a larger share of costs for smaller projects with limited funding needs than it will for larger projects with more ambitious funding requirements. Recognizing that the least developed countries are among the most vulnerable to the adverse effects of climate change, and in particular that widespread poverty limits their adaptive capacity, it is proposed that the sliding scale under the LDC Fund require less co-financing than the scale proposed for the SCCF. Drawing on past experience and practices, the following rules will be applied⁴:

- (a) if a project requires less than \$0.250m of funding, LDCF financing will be available for up to 75 percent of the project financing. This will include financing for small community based projects requiring up to \$50,000 funding, through small grants programme or a similar modality, with allowance for in-kind contributions;
- (b) if a project requires less than \$2million of funding, LDC Fund financing will be available for up to 50 percent of the project;
- (c) for projects requiring between \$2 and \$5m of funding, the LDCF will finance up to one third of the costs of the project; and
- (d) for projects requesting more than \$5m, the LDCF will finance up to one fifth of the total project costs.

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

⁴ 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.

VII. PROJECT MODALITIES

24. Financing of projects will rely upon existing modalities and tools available through the GEF.

25. For full sized projects, the GEF full project cycle will be followed.

26. For projects seeking up to US\$1 million in financing from the Fund, the medium sized projects modalities of the GEF may be followed.

27. For projects up to \$250,000, a new modality that is currently under development within the GEF for expedited financing of smaller scale medium sized projects may be appropriately tailored to the LDC Fund.⁵

28. It is proposed that if requested by an eligible Party, the institutional structure of the GEF Small Grants Program in that country may serve as a useful mechanism for delivering financing from the Fund for community-based adaptation 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. Using a Small Grants Program approach would enable a "prompt response" to urgent needs for up to \$50,000 per project. Annex II of this paper provides a fuller explanation as to how the Small Grants Program model could be used to expedite financing for small scale community-based projects.

VIII. FINANCING MODALITIES

29. It is likely that the LDC Fund will require additional resources if it is to provide adequate funding to eligible Parties for the implementation of their NAPAs. For this purpose, the GEF will seek to mobilize additional resources for the LDC Fund. Before mobilizing resources, it will be essential to review the priority needs identified in the NAPAs and to assess the resources necessary to assist LDCs to address them. This information, together with any additional guidance from the Conference of the Parties, will form the basis of a programming document on which to mobilize resources. This can only be accomplished once a sufficient number of NAPAs are completed to provide a meaningful sample on which to assess resource needs. Once such information is available, the GEF Secretariat, in collaboration with its Implementing Agencies and the Convention Secretariat, will prepare a programming document and will seek to mobilize additional resources for the LDC Fund.

30. The GEF will endeavor to assess needs and mobilize resources for a period of up to five years so as to allow countries to plan for the implementation of their NAPAs with some predictability of resources. It is also proposed that based on the level of resources available to the Fund, the GEF will program the availability of resources over the five year period to help ensure that those countries that complete their NAPAs first do not utilize all the resources of the

⁵ This new modality will be presented to the GEF Council for its consideration at its meeting in November 2004.

Fund. Consideration will also be given to establishing floors (to ensure access of all countries to required capacity building) and/or ceilings (for project implementation) for the resources available to any one eligible Party, taking into account the total resources mobilized. In approving projects under the Fund, the Council will be informed of the commitments made to date with a view to ensuring that all eligible Parties have access to the resources of the Fund.

IX. ADDITIONAL GUIDANCE

31. These elements will be kept under review and revised as necessary to take into account additional guidance from the COP on the LDCF as well as lessons learned in financing the implementation of NAPAs.

**ANNEX I. FINANCING FOR THE PREPARATION OF NAPAs APPROVED BY THE GEF
(As of September, 2004)**

	Country	Implementing Agency	Amount Approved	Date of CEO Approval
1	Afghanistan	UNEP	200,000	5/14/2004
2	Bangladesh	UNDP	200,000	4/17/2003
3	Benin	UNDP	200,000	3/5/2004
4	Bhutan	UNDP	199,000	10/14/2003
5	Burkina Faso	UNDP	200,000	7/17/2003
6	Burundi	UNDP	200,000	5/14/2004
7	Cambodia	UNDP	199,500	12/17/2002
8	Cape Verde	UNDP	200,000	10/10/2003
9	Central African Republic	UNEP	200,000	1/23/2004
10	Chad	UNDP	200,000	4/5/2004
11	Comoros	UNEP	200,000	6/27/2003
12	Congo DR	UNDP	200,000	12/11/2003
13	Djibouti	UNEP	200,000	8/11/2003
14	Eritrea	UNDP	200,000	12/18/2002
15	Ethiopia	UNDP	200,000	4/7/2003
16	Gambia	UNEP	198,100	7/25/2003
17	Guinea	UNDP	200,000	11/3/2003
18	Guinea-Bissau	UNDP	200,000	5/14/2004
19	Haiti	UNEP	198,665	1/27/2003
20	Kiribati	UNDP	200,000	10/27/2003
21	Lao PDR	UNDP	200,000	7/30/2003
22	Lesotho	UNEP	190,000	2/19/2003
23	Liberia	UNEP	200,000	12/22/2003
24	Madagascar	World Bank	200,000	5/14/2004
25	Malawi	UNDP	200,000	3/21/2003
26	Maldives	UNDP	200,000	10/22/2003
27	Mali	UNDP	200,000	12/11/2003
28	Mauritania	UNEP	198,000	1/23/2003
29	Mozambique	UNDP	200,000	4/23/2003
30	Níger	UNDP	200,000	3/31/2004
31	Rwanda	UNEP	195,000	6/9/2004
32	Samoa	UNDP	200,000	12/17/2002
33	Sao Tome and Principe	World Bank	200,000	3/29/2004
34	Senegal	UNEP	195,000	10/22/2003
35	Sierra Leone	UNDP	200,000	4/12/2004
36	Sudan	UNDP	200,000	4/17/2003
37	Tanzania	UNEP	200,000	3/21/2003
38	Togo	UNDP	200,000	3/18/2004
39	Tuvalu	UNDP	200,000	2/12/2003
40	Uganda	UNEP	199,790	7/15/2003
41	Vanuatu	UNDP	200,000	4/7/2003
42	Yemen	UNDP	200,000	1/16/2003
43	Zambia	UNDP	197,500	12/5/2003
44	Global	UNDP	633,538	4/16/2003
45	Global	UNDP	211,126	9/2/2003
	Total		9,415,219	

LDC Country Parties that have not yet received financing for the preparation of a NAPA				
	Country	Implementing Agencies	Suggested Amount	Preparation Status
1	Angola	UNEP		Under Preparation
2	Equatorial Guinea	UNEP		Under Preparation
3	Myanmar	UNEP		Delayed at country request
4	Nepal	UNEP		Under preparation
5	Solomon Islands	UNDP		Under preparation

ANNEX II. SMALL GRANTS PROGRAM AS A MODEL TO ASSIST IN IMPLEMENTING NAPAS

1. The SGP Model could provide useful lessons for the financing of community-based priority activities called for in NAPAs. In designing such a programme, the following factors should be considered:

Project processing and disbursement.

2. The SGP provides for rapid project development and implementation since project development, approval and processing is firmly based at the country level:

3. *Project approval procedures are highly simplified.* National SGP Coordinators with support from a National Steering Committee (a country technical group) review and approves proposals. The National Steering Committee (NSC) then approves the proposals. To expedite project processing, a UNDP project document is not required. However, before releasing funds, a standard MOA has to be signed by the Resident Representative, and the grantees, to assure accountability of parties.

4. *Project proposals follow a simplified format.* By following a checklist of basic requirements, National Coordinators assure completeness and quality of proposals.

5. *Planning grants are provided.* If proponents have difficulty in developing their proposals, the SGP can provide planning grants, of up to \$2,500, to the proponent. The grants are used for technical support, additional consultations for better local ownership, more baseline studies, etc. To speed up the process, the approval for planning grants is often delegated by the NSC to the National Coordinator.

6. *Levels of project funds.* Currently, the SGP disburses on average US\$400k/yr/country. New countries start with a lower disbursement of US\$250k.

7. Attachment I provides a brief summary of the process of developing SGP country strategies, which could be potentially useful for designing the NAPA implementation strategy.

Institutional arrangements

8. In looking at the SGP, a key distinction would need to be made between the NAPA and SGP is the composition of the National Steering Committees and the stakeholders involved.

9. *Scope of the program.* The SGP is broader in its scope, covering all focal areas while the NAPA is more narrowly focused, covering climate change adaptation only. Adaptation is generally multisectoral.

10. *Stakeholders.* The composition of the stakeholders would also differ between the SGP and the NAPA, mainly due to the scope of these programs. However, some of their members may overlap.

11. *Governance:* The SGP process is primarily driven by non-governmental and civil society organizations. The Steering Committee is made up of NGOs, academic institutions, government, and the UNDP Country Office, with the majority from NGOs. The SGP has been encouraging the membership of GEF Operational Focal Point persons in NSCs. Decision-making follows a bottom-up approach. The NAPA process is primarily driven by a participatory process involving stakeholders, particularly local communities, with the UNFCCC Focal Point having the leading role in establishing the NAPA team, composed of a lead agency and representatives of stakeholders. Upon preparation the NAPA document undergoes a public review and revision, and is subsequently reviewed by a team of government and civil society representatives, including the private sector. It is then submitted to the national government for endorsement.

Country coverage

12. By end of 2005, SGP is expected to operate in 26 of the 48 LDCs. Currently, SGP is operational in 14 of the 48 LDC countries: Bhutan, Burkina Faso, Cambodia, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Samoa, Senegal, Uganda, the United Republic of Tanzania and Yemen. The number of participating LDCs is expected to increase over the next three years. The 12 additional countries for 2005 are: Bangladesh, Chad, the Comoros, Eritrea, Ethiopia, Guinea-Bissau, the Lao People's Democratic Republic, Madagascar, Maldives, Solomon Islands, Sudan, and Vanuatu.

Conclusions

13. NAPA programs could be based on some elements of the SGP. It would be possible to actually use the SGP structure in countries where it exists.

14. In countries where SGP has offices, the National Coordinator of SGP could become a member of the NAPA Steering Committee to allow complementarity. The SGP office, with additional staff and logistics support, could provide cost-effective support for streamlined processing of NAPA related projects involving communities. The NAPA Steering Committee could use the established SGP modality of disbursing funds.

15. Furthermore, under the GEF Fund's Strategic Priority for Adaptation, a proposal for a SCG component (prepared for pipeline 18) is aimed at building capacity of communities. Through a bottom-up approach (as 'policy laboratory'), it aims to scale up coping mechanisms from the community level into national policy. A rapid-start up of this new SGP activity could complement the LDC NAPA process.

16. In countries where there is no SGP program, a NAPA steering committee could be structured following the SGP elements described in this paper for proposal development, solicitation, prioritization, and approval for community projects.

17. In both cases, the governance structures of the NAPA and SGP committees should be kept distinct.

ATTACHMENT I: DEVELOPMENT OF SGP COUNTRY PROGRAM STRATEGIES

1. Each country participating in the SGP develops a country program strategy, which adapts the SGP global strategic framework to specific country conditions. SGP country strategies take into account existing national biodiversity and climate change strategies and plans and other relevant GEF thematic areas, as well as those relating to national development and poverty eradication.
2. The first section of the CPS includes a section on the *national situation analysis*, which defines the problem and gives background of the country. The analysis includes existing institutions, policy and legislation that relate to environment in regard to national development context. A comparative analysis of various stakeholders and the Government-NGO partnerships is also included.
3. The second section of the strategy is the definition of the *strategic direction* of the program. This includes conformity with GEF mandates, *a vision* of at least five or so years, *objectives and key results* expected for at least two years, community level *programming priorities*, target groups and coverage, strategies of achieving impacts, sustainability and resource mobilization.
4. It includes an implementation framework elaborating the *institutional structure and stakeholders relevant* to the implementation of the program, *an implementation work plan and key results with prioritized activities*. A strategy for M&E is included with clear *organization and management procedures*.
5. The development of country programme strategy is a participatory all-inclusive process usually carried out in a workshop of national stakeholders who include the NGOs, the civil society organizations, the private sector, experts in GEF thematic areas, academia, Government, UNDP representatives and representatives from the donor community.
6. The SGP Committee provides overall guidance to the Country program for all GEF focal areas, and selects and approves projects for funding. Working in collaboration with the National Coordinator (NC), the NSC helps to develop the Country Program Strategy (CPS) in accordance with the SGP Global Strategic Framework and national environmental priorities. The Committee also oversees implementation of the program
7. Performance review of the SGP national program is carried out every two years and the result informs the national Program whether they need to revise the country program strategy.