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Agenda Item 06

**UPDATE ON THE CHALLENGE PROGRAM FOR ADAPTATION INNOVATION
UNDER THE SPECIAL CLIMATE CHANGE FUND AND THE LEAST DEVELOPED
COUNTRIES FUND**

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INTRODUCTION

1. At its 24th meeting in June 2018, the LDCF/SCCF Council endorsed the GEF Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) and Operational Improvements as a basis for programming resources under the LDCF and the SCCF from July 1, 2018 to June 30, 2022.¹
2. In line with this Strategy, SCCF Objective 1, “Reduce vulnerability and increase resilience through innovation and technology transfer for climate change adaptation”, will primarily be supported through the Challenge Program for Adaptation Innovation (hereinafter referred to as “Challenge Program”).² Furthermore, the LDCF and SCCF will consider regional/global initiatives that support innovative projects with significant adaptation and de-risking potential for developing countries and with private sector engagement, to support Objective 1 and 2 of the Strategy, as indicated in paragraph 151 of the strategy.
3. This information document presents an update on the development of the Challenge Program for the SCCF and regional/global initiatives that support innovation by the LDCF and SCCF, including progress to date and next steps. Based on the deliberations of the LDCF/SCCF Council, the GEF Secretariat will finalize a call for proposals, screen submitted concepts and invite the full development of project proposals for approval following the regular GEF project review and approval cycle.

IMPLEMENTATION MODALITIES FOR THE CHALLENGE PROGRAM

Background and Rationale

4. The GEF, through the LDCF and SCCF, seeks to engage the private sector through dedicated projects and programs, and as an integral part of regular projects and programs in support of the GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF. The ultimate objective of the LDCF and SCCF’s engagement with the private sector is to harness the potential of the private sector actors to achieve the global goal on adaptation for the Paris Agreement, to increase resilience to the adverse impacts of climate change and variability in vulnerable developing countries, and support their efforts to build adaptive capacity.
5. The LDCF and SCCF seek to identify, test and highlight adaptation approaches with potential to be scaled up through cooperation with other climate finance mechanisms, such as the Green Climate Fund (GCF). By focusing on continuous innovation and learning with regard to private adaptation solutions, the Challenge Program aims to test and validate potentially

¹ See GEF, 2018, [GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF and Operational Improvements](#), LDCF/SCCF Council document GEF/LDCF.SCCF.24/03.

² Ibid, paras. 101-104.

scalable, bankable or otherwise fundable investment approaches, business models, partnerships and technologies.

6. The Challenge Program is well positioned to promote innovation in adaptation technologies and techniques to build sustainable innovation ecosystems for micro, small, and medium enterprises, thereby creating private sector opportunities to reduce climate change vulnerabilities. Fostering innovation and entrepreneurship environments for technologies in the resilience space will allow developing countries to build more sustainable and resilient economies. The Challenge Program can support entrepreneurship development, incubators, seed funding and venture capital approaches.

7. The Challenge Program is expected to entail multiple benefits such as: (i) Good alignment with the GEF's demonstrated potential to foster innovation and technology transfer; (ii) enabling concrete and meaningful collaboration to enhance adaptation benefits with international partnerships, such as the Global Commission on Adaptation (GCA), Global Centre of Excellence on Adaptation (GCECA) and the Global Resilience Partnership (GRP); and (iii) potential to spur the dissemination of viable adaptation technology and management practices that can generate revenue/profit, thus potentially mobilizing the domestic private sector by creating successful adaptation entrepreneurs.

8. The Challenge Program is poised to deliver knowledge and emerging lessons, including as it relates to private sector engagement, in order to enable other climate finance mechanisms to minimize risks and scale up tested approaches. The sharing of knowledge and information will be undertaken by, among others, leveraging existing and emerging partnerships such as with InsuResilience, Proadapt, GCA, GCECA, GRP, Global Adaptation and Resilience Investment (GARI) Working Group, the NDC Partnership and other fora.

Resource Allocation and Threshold

9. Resources in Window B of the SCCF for Technology Transfer, as well as part of resources in Window A on Adaptation, may be utilized for the Challenge Program. The concepts will be solicited when there is more than \$5 million in resources available from the SCCF for this purpose.³

10. Additional support may also be made available for LDCs, utilizing LDCF resources, based on national priorities and LDCs' interest in the program. The initial LDCF allocation towards the Challenge Program is envisaged at approximately \$5 million, as part of the regional/global

³ The Status Report for the SCCF, as prepared by the Trustee and presented in document GEF/LDCF.SCCF.25/Inf.03, provides an overview of available resources under the SCCF. As at October 31, 2018, the resources available exceed the threshold of \$5 million and would enable the GEF Secretariat to release a call for proposals in early 2019, ahead of the 26th LDCF/SCCF Council meeting.

initiatives. As per paragraph 152 of the GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF, a relatively modest share of LDCF support may be allocated to regional/global initiatives during the GEF-7 period.⁴

11. With the SCCF and LDCF resources, the total initial envelope of the Challenge Program is expected to be approximately \$10 million. The actual programming will be determined based on demand and alignment with relevant LDCF/SCCF objectives.

Application Modality and Eligibility

12. All developing countries are eligible to benefit from SCCF funding under the Challenge Program, while only LDCs are eligible for Challenge Program resources that are drawn from the LDCF global/regional resources.

13. As per paragraph 148 to 151 of the GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF, programming at the regional and global level has proven to be especially effective to support testing and piloting of highly innovative and risky interventions that are too early for national level implementation. Only projects with clear potential for replication, sharing of lessons learned at the regional or global scale, and innovative projects with significant adaptation and de-risking potential for developing countries and with private sector engagement that complement national projects, will be eligible for the Challenge Program. The Challenge Program will only fund initiatives with clearly justified reasoning as to the utilization of global-regional resources. If approved, these projects will not be counted toward the per-country cap or the cumulative country ceiling under the LDCF.

14. The Challenge Program builds on the existing the SCCF pre-selection process, which was approved as part of the updated operational guidelines,⁵ and will be organized by modifying these criteria to maximize impact with scarce resources. The pre-selection process aims at identifying and prioritizing suitable projects and programs for admission in the formal project cycle, so that the number and size of the proposals entering the formal cycle matches the funds that are available.

15. Agencies, in consultation with countries, can submit candidate concepts to the GEF Secretariat, which will apply the modified pre-selection criteria and process to identify those that are invited to be developed further for approval by the LDCF/SCCF Council, or by the CEO under delegated authority. Proposals for both full-sized projects and medium-sized projects will be considered.

⁴ See GEF, 2018, [GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF and Operational Improvements](#), LDCF/SCCF Council document GEF/LDCF.SCCF.24/03.

⁵ See GEF, 2013, [Updated Operational Guidelines for the Special Climate Change Fund for Adaptation and Technology Transfer](#), LDCF/SCCF Council document GEF/LDCF.SCCF.13/05.

16. The pre-selection of a concept is not a guarantee for admission into the work program. The outcome of the pre-selection process does not preclude any given Agency from submitting a fully-fledged proposal for consideration for SCCF/LDCF funding for a concept that was not pre-selected.

Pre-Selection Criteria for Proposals under the Challenge Program

17. The primary selection criteria are consistent with the principles contained in the GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF and Operational Improvements, as endorsed by the LDCF/SCCF Council in June 2018.⁶ Pre-selection aims to ensure that the following criteria are taken into consideration:

- (a) Project/program quality;
- (b) Equitable distribution of funds among eligible countries and regions;
- (c) Degree of innovation;
- (d) Potential to catalyze private sector for climate change adaptation at scale; and
- (e) Support for priority sectors and themes.

18. Highly innovative and risky projects are especially encouraged if they comprise potential to deliver systemic impact at scale. The Challenge Program will focus on proposals with local solutions, private sector engagement, cross-learning, and in sectors/systems identified as high priorities.

19. All sectors and themes are eligible under the Challenge Program, while an emphasis would be placed on select priority themes as follows:

- (a) Entrepreneurship development in the adaptation and climate resilience space;
- (b) Promoting local private sector actors, especially micro, small and medium-sized enterprises, which are critical for resilient economies and communities in developing countries, providing services and access to hard-to-reach populations;
- (c) Strategic multi-stakeholder partnerships⁷, alliances, and incubators as catalyzers of larger scale financing and market developers;
- (d) Initiatives that address climate security;
- (e) Resilience technology transfer including for weather analytics and monitoring, catastrophe and climate risk modeling, climate insurance, efficient irrigation and drinking water supply systems;

⁶ See GEF, 2018, [GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF and Operational Improvements](#), LDCF/SCCF Council document GEF/LDCF.SCCF.24/03.

⁷ This may include new, existing or emerging programs.

- (f) Resilient food storage, distribution and supply chains for agricultural and commodity supply chains, and enhancing resilience of small land-holders;
- (g) Innovative business models and investment approaches, seed funding and venture capital approaches to improve access to finance for private sector solutions to climate change, including facilities or structures that support sustainable project pipeline development, aggregation or linkages to bond and other capital markets; and
- (h) Enhancing gender-responsiveness in private sector climate change adaptation by supporting ownership and active participation of female stakeholders and gender-specific adaptation strategies.

Financial Terms

As per the GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF⁸, the SCCF aims to drive innovation with the private sector through both grant and non-grant instruments on a fully flexible and case-by-case basis. The LDCF in turn will continue to rely exclusively on grant instruments and not on non-grant instruments.

OUTLOOK AND NEXT STEPS

20. An open competition based on a call for proposals will be organized, following the implementation modalities outlined in this document and taking into account the deliberations by the LDCF/SCCF Council. Given the available resources in the SCCF and LDCF, the GEF Secretariat will publish a call for proposal in early 2019, ahead of the 26th LDCF/SCCF Council meeting.

21. The GEF Secretariat will publish a call for proposals online and disseminate it widely through various outreach and communication channels, including by utilizing its Private Sector Advisory Group, and through relevant events and meetings concerning relevant multilateral environmental agreements. The Secretariat will also make a dedicated effort to enhance awareness about the Challenge Program through its regular outreach to recipient countries.

⁸ See GEF, 2018, [*GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF and Operational Improvements*](#), LDCF/SCCF Council document GEF/LDCF.SCCF.24/03.