

GLOBAL
ENVIRONMENT
FACILITY

GUIDANCE FOR PROGRAMMING
GEF RESOURCES IN 1995

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INTRODUCTION

1. The need for a long term strategic framework to guide the operations of the GEF is well recognized. The Independent Evaluation noted, as one of its principle recommendations, the importance of well-developed program objectives and strategies. Over this past year, the groundwork has been laid for preparing such a strategy. Consultations between the GEF and the interim Secretariats of the Biodiversity and Climate Change conventions have helped in defining the broad parameters of an operational strategy; and meetings between the Secretariat and the Implementing Agencies have now led to the establishment of a series of focused task forces dealing with a number of operational policy and strategy issues. In addition, the Secretariat has prepared for the second Council (November, 1994) meeting papers that deal with aspects of future operational strategies, including papers on Incremental Costs and the Project Cycle. These papers will be discussed at that meeting in tandem with this paper.
2. In the case of Biodiversity and Climate Change, the conventions will play a central role in providing guidance to the GEF on policies and program priorities¹. However, the first meetings of the Conference of the Parties to these conventions will not take place until November/December 1994 and March/April 1995 respectively. In view of the timing of these meetings, the need to ensure that policy guidance is considered carefully, as well as the time required for broad consultations, the Council concurred that the development of the long term strategy could not be completed until late 1995. As a result, a "two track" approach has been adopted: while work is being undertaken to develop a long term strategy (track one), guidance is needed on what activities are to be undertaken to allow for a smooth transition between the operations of the pilot phase and the "new" GEF (track two)². This paper presents guidance for programming GEF resources in 1995.
3. The lessons of the pilot phase -- a crucial ongoing learning experience for the three Implementing Agencies -- also provide a cornerstone for the future GEF. Almost \$ 800 million has been programmed; operational and programming procedures have been tested, modified and improved; high quality project documentation has been introduced; guidelines within agencies have been developed; and operational modalities between the agencies have been refined. The "new" GEF will build upon the best practices of the pilot phase and ensure that the lessons learned during the past three years (many of which were also documented in the Independent Evaluation) are implemented.
4. Compelling arguments can be made for implementing a first year (January - December 1995) transitional operational strategy which would act as a bridge between the pilot and the future:
 - (a) The Conventions (Biodiversity and Climate Change) have already indicated the need to begin implementing a number of activities in support of convention objectives. These activities -- often described as "enabling activities" -- are critically important in assisting developing countries to undertake preparatory work under the

¹See Instrument for the Establishment of the Restructured Global Environment Facility, Article 6 & 26.

²See also GEF Council: A Proposed Statement of Work, GEF/C.1/2, pp. 5-10.

ODS phase out is complementary to the activities of the Multilateral Fund of the Montreal Protocol;

- (g) Careful project preparation will be absolutely essential for the GEF. The Secretariat has recommended the establishment in 1995 of a Project Development and Preparation Facility (PDF) within the GEF (see Proposed GEF Project Cycle, GEF/C.2/3). The PDF would fund the preparatory stages of promising GEF project concepts and would ensure minimum compliance with GEF project cycle requirements, including attention to project design, consultation and participation. The PDF, if approved, would require initial funding in 1995; and
- (h) Experience elsewhere in operational programming suggests that transitional planning is critical to institutional performance. A hiatus of one year in programming could have a deleterious impact upon staffing patterns within the Implementing Agencies and recipient country institutions, could reduce the number of trained staff currently working on GEF concepts and projects, and would disrupt potentially important projects currently under review. A hiatus would result in high "start-up" costs in 1996.

5. Thus 1995 will be a pivotal year in establishing the operational modalities and program frameworks for 1995 and beyond; in ensuring implementation of pilot phase projects; and in providing activities that set the stage for future expansion. The key objectives for GEF operations in 1995 can be summarized as:

- (a) establishing the key operational modalities and operational strategy for the GEF;
- (b) establishing a Project Development and Preparation Facility (PDF) to ensure the development of a high quality portfolio of GEF projects that reflects this operational strategy; and
- (c) providing funding to high priority and urgently needed activities.

PROGRAM GUIDANCE FOR 1995

6. It is proposed that a modest start be made in funding of GEF operations during 1995 and that approximately 15% of total resources be allocated. The main program areas for action during 1995 are described in the paragraphs that follow and are summarized below:

- (i) Enabling activities concerning Biodiversity and Climate Change;
- (ii) Priority projects in the three focal areas of Biodiversity, Climate Change, and International Waters; and
- (iii) Priority projects to phase out ozone depleting substances.

Enabling Activities for Climate Change

9. The Tenth Session of the Intergovernmental Negotiating Committee for a Framework Convention on the Climate Change Convention (INC X) concluded that priority should be given to the funding of agreed full costs (or agreed full incremental costs, as appropriate) incurred by the developing country Parties in complying with their obligations under Article 12.1 and other relevant commitments under the Convention. In the initial period, emphasis should be placed on enabling activities undertaken by developing country Parties, such as planning, endogenous capacity building including institutional strengthening, training, research and education, that will facilitate implementation, in accordance with the Convention, of effective response measures."⁵
10. With regard to adaptation to the adverse effects of climate change, INC X agreed on a three stage strategy. It was recommended that GEF funding for the agreed costs of 12.1 activities would include meeting the agreed full costs of relevant adaptation activities undertaken in the context of the formulation of national communications; such activities may include studies of the possible impacts of climate change, identification of options for implementing the adaptation provisions (especially the obligations contained in Article 4.1 (b) and 4.1 (e)) of the Convention, and relevant capacity building.⁶ This would be expected to be included within overall programs of enabling activities in accordance with Stage I⁷ of the interim guidance of the INC for adaptation related activities (Stage II envisages measures in preparation of adaptation, and Stage III measures to facilitate adequate adaptation).⁸
11. For most developing countries, full and effective participation in the Convention would involve initiating a long-term effort at capacity building. At the basic level countries must put in place the capacity for compiling information regularly and identifying appropriate response measures. At another level, they need to establish the capacity to develop and implement strategies and programs in line with Article 4 of the Convention. As part of its commitment to enabling activities at the basic level described above, the GEF will support capacity building activities, and public awareness operations.
12. In terms of 1995 GEF funding allocation, climate change and biodiversity enabling activities could amount to some \$ 80-100 million.

⁵See A/AC.237/L.21/Add.1; Annex - Decision 10/3 para 1 (b), page 13

⁶Paragraph 1 (e)(vi).

⁷Stage I is concerned with: "Planning, which includes studies of possible impacts of climate change to identify particularly vulnerable countries or regions and policy options for adaptation, and appropriate capacity building". A/AC.237/L.21/Add.1; Annex Decision 10/3, para 1(e)(ii), page 14.

⁸See INC X Document A/AC.237/L.21/Add.1, Article 15.

would not only be restricted to the installation of wind, solar, or other renewable power systems but would also help sponsoring utilities, agencies and other organizations to develop and implement strategies which would both reduce emissions and meet energy service needs of rural and remote communities. Similarly, energy efficiency projects would be associated with broader capacity-building packages rather than being stand-alone technology demonstrations. Providing support to the development of an indigenous capacity to apply energy efficient and renewable technologies would assist in reducing carbon emissions while also contributing to national sustainable development. For 1995 no high capital intensive projects in fields such as methane capture, land management, or alternative transport options would be proposed until the long term strategy has been prepared and approved by the Council.

16. *Technology transfer* is an important element of the Framework Convention on Climate Change, and is a matter of considerable interest to many developing countries. For 1995, emphasis will be placed on two priority type projects concerning renewable energy and energy efficiency. First, priority will be given to projects and programs which focus on the demonstration and transfer of technologies that have been proven on a commercial scale in developed economies but have not found substantial application in the developing countries. Second, emphasis will be given to demonstration and capacity-building projects and programs designed to speed up broad acceptance in developing countries of innovative technologies that may have limited application in developing countries.

17. *Renewable Energy*. In the long run, the most cost-effective reduction of greenhouse gas emissions will depend heavily on the use of non fossil-fuel energy technologies. The costs of renewable energy have already been falling dramatically and consistently. The long-term objective of GEF interventions should be to help accelerate the lowering of unit production costs towards levels where such energy can become competitive with conventional fuels. It is important, however, to start such work in 1995 as the basis for a long-term operational strategy.

18. It is proposed that any renewable energy project(s) submitted during 1995 would concentrate on one or more of the following activities:

- whose major future cost reductions are likely to be achieved not merely through further technical research undertaken in developed countries but through lowering information, learning and implementation costs in developing countries;
- whose demonstration and promotion is likely to lead to the development of a larger more stable market, competition, and economies of scale and thereby to stimulate commercialization further;
- for which GEF financing is likely to accelerate acceptance and competitiveness beyond what would be expected without GEF involvement;
- preparatory work, engineering design, etc. to provide projects for 1996 and beyond; and

per capita. This is largely in the countries with economies in transition. However, the CFC phase out in these countries is very important since their ODS consumption equals that of the developing countries in total. At a recent UNEP-sponsored workshop in Minsk on the Montreal Protocol for the countries of the Commonwealth of Independent States (CIS), it was concluded that the most effective strategy for ODS phase out in this region would focus on consumer products, e.g. aerosols, foams, and refrigeration. It was also agreed that the Implementing Agencies will each build on existing working relationships with recipient countries in the region. Policy guidance will be the same as that used by the Multilateral Fund of the Montreal Protocol. Once cost-effective consumer product-focussed activities have been implemented it would also require action on the side of phasing out of CFC production. This would need to find separate financing outside the GEF since the projected cost of production phase out (all in Russia) would be at least \$500 million.

25. As a broad allocation guideline, some \$60-80 million would be allocated to ODS phase out. Such funding levels are being proposed only for 1995. They are therefore not intended as a benchmark for future year funding allocations.

PROPOSED POTENTIAL FUNDING FOR 1995

26. The suggested funding ranges for the three program components discussed in this paper add up to an possible overall 1995 funding range of \$280 - 340 million, as summarized in the table below.

Program Components	Potential Funding
(i) Enabling Activities (Climate Change and Biodiversity)	\$80-100 Million
(ii) Selected Priority Projects to Benefit the Focal Areas of Climate Change, Biodiversity, and International Waters	\$140-160 Million
(iii) Phase Out of Ozone Depleting Substances	\$60- 80 Million
Proposed Potential 1995 Funding	\$280-340 Million