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Agenda Item 13

PROGRAMMING PAPER FOR FUNDING THE IMPLEMENTATION OF NAPAS UNDER THE LDC TRUST FUND

Recommended Council Decision

The Council reviewed and approves the *Programming Paper for Funding the Implementation of NAPAs under the LDC Trust Fund* (document GEF/C.28/18). The Council notes with appreciation the commitments that have been pledged to support the implementation of the National Adaptation Plans of Actions in the Least Developed Country parties to the UN Framework Convention on Climate Change.

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Executive Summary

This paper presents a programming framework for guiding operations under the Least Developed Countries Fund for Climate Change (LDCF). The LDCF has supported 44 least developed country Parties to the UNFCCC in carrying out the preparation of National Adaptation Programs of Action (NAPA's). As three countries have already completed their NAPA's and another dozen are in the final stages of review, the NAPA preparatory phase is expected to conclude over the next two years. In anticipation of the NAPA implementation phase, COP9 (Decision 6/CP.9) and COP11 (Decision 3/CP.11) provided additional guidance to the GEF on the operation of the LDCF. This paper incorporates that guidance into the proposed programming framework for the LDCF.

The GEF will work with eligible Parties that have completed their NAPAs to finance each country's priority activities, taking into account the principle of balanced access to the LDCF. Based upon preliminary readings and presentations of the NAPA's, the priority sectors that are expected to receive the most attention under the NAPA's are water resources, food security and agriculture, health, disaster preparedness and risk management, infrastructure and natural resources management. Community-level adaptation may also be a cross-cutting area of concern. The proposed approach for effective implementation of NAPAs is to integrate urgent and immediate adaptation measures into the development activities of each LDC, taking into account national circumstances and economic and social priorities. To achieve the objective of climate-resilient development, climate change adaptation interventions should be integrated into national development policies, plans, programs, projects and actions.

Addressing the adverse impacts of climate change imposes an additional cost on vulnerable countries in their effort to achieve sustainable development goals. The LDCF will provide financing for the "additional costs" that pertain to meeting urgent and immediate adaptation needs, identified in their NAPAs. To simplify the calculation of additional costs, a sliding scale may be used. If the financing requested for a given project proposal meets the limits proposed in this sliding scale, a project will be approved without having to estimate additional costs.

In order to expedite and simplify project approval under the LDCF, an expedited approval process that applies only to projects submitted for funding under the LDCF is proposed. Under this process, projects will be reviewed and approved on a rolling basis throughout the year. In addition, all LDCF projects requesting up to $2m of GEF resources can utilize the MSP approval process. For projects requesting more than $2m of funding from the LDCF, the proposals will be web-posted and approved by mail on a rolling basis. Projects will be approved unless four or more Council members request that the project be discussed and approved at the next GEF Council meeting.

The contents of an earlier draft of this paper were presented at an LDC-GEF Consultation held in Dhaka, Bangladesh from April 4-6, 2006. The comments received from the participants were incorporated into a revised draft that was discussed at a donor's meeting held in

Copenhagen, Denmark on April 28, 2006. Further comments obtained from this meeting have been incorporated into the present paper.

I. BACKGROUND

1. At the seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) held in Marrakech, Morocco, from October 29 to November 10, 2001 (COP7), Parties agreed to the establishment of a Least Developed Countries Fund (LDCF). The Parties also requested the GEF, as an operating entity of the financial mechanism of the Convention, to operate the LDCF.

2. 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 fund.[1] This included the operational guidelines for the expedited funding for the preparation of National Adaptation Programs of Action (NAPA's), approved by the GEF Council in May 2002.[2] Annotated guidelines, developed by the Least Developed Countries Expert Group (LEG), were provided as a tool that may be utilized to guide NAPA preparations. The rationale for developing NAPAs builds upon the high vulnerability and low adaptive capacity of LDCs, which render them in need of support to begin adapting to the adverse effects of climate change. Activities proposed through the NAPAs would be those whose further delay could increase vulnerability, or lead to increased costs at a later stage. NAPAs are aimed at identifying priority activities that address the urgent and immediate needs and concerns of the LDCs relating to adaptation to climate change[3].

3. On the basis of the programming paper that set forth the operational guidelines for NAPA's, donors contributed more than $40,000,000 to the LDC fund. These contributions have enabled the fund to support the preparation of NAPA's. In November 2004, the GEF Council reviewed progress to date in preparing NAPA's, and considered other options to be taken into account in NAPA implementation.[4] This paper builds upon the framework put forward in these earlier GEF papers[5] and seeks to lay the foundation for the successful implementation of NAPA's.

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[1] 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.*

[2] *Note on GEF Support for National Adaptation Plans of Action (NAPA), May 8, 2002* (GEF/C.19/Inf.7).

[3] Decision 28/CP.7, Annotated guidelines for the preparation of NAPAs.

[4] *Elements to be Taken into Account in Funding the Implementation of NAPAs under the LDC Fund,* (GEF/C.24/Inf.7).

[5] It is agreed that the governance structure and general operational procedures and policies that apply to the GEF Trust Fund will also apply to the LDCF, unless the Council agrees that they should be modified in response to Convention guidance or to facilitate the operations of the LDCF so as to achieve successfully the objectives of the fund. For example, the principle of financing incremental costs to achieve global environmental benefits that underlies the GEF Trust Fund has been replaced by the principle of financing the additional costs necessary to respond to the adverse impacts of climate change for purposes of the LDCF. Similarly, operational procedures and simplifications made with respect to the LDCF (such as the sliding scale) will not be taken to establish any precedent for the operation of the GEF Trust Fund. Furthermore, decisions of the Council with specified application within the GEF Trust Fund, such as the Resource Allocation Framework which is to apply to the biodiversity and climate change focal areas in GEF-4, will not be applied in allocating funds under the LDCF, the SCCF or the Adaptation Fund.

4. As of January 2006, financial support had been provided for the preparation of 44 NAPAs and two global support projects (see Annex A). The total costs of these activities came to $11,614,089. As of February 28, 2006, an additional sum of $28,764,168 remains in the LDCF to support the implementation of projects identified in the NAPAs. Four remaining LDC countries eligible for NAPA support have not yet received funding for the NAPAs (Angola, Equatorial Guinea, Myanmar, and Nepal). UNEP is assisting all of them in the preparation of their NAPA proposals. Of the approved NAPAs, most anticipated being completed within a period of 12 to 18 months, but in reality, the work is requiring longer to complete than was expected. The first completed NAPA was submitted by Mauritania in November 2004. The majority of the remaining NAPA's should be completed during 2006 and 2007.

5. The NAPA preparation phase is considered complete when the NAPA official report is finalized and made public. The NAPA implementation phase includes the design, development, and implementation of projects on the ground. Throughout the implementation phase, projects will be monitored to measure progress, and at project completion, a terminal evaluation will be required to assess the effectiveness of the adaptation measures implemented. The implementation phase should include provision for involving a comprehensive and open group of stakeholders. The implementation phase requires not only the mobilization of significant additional resources but also the identification and involvement of key agencies, individuals, communities and entities with relevant expertise to address the problems given priority in the NAPA report.

II. Guidance from the Conference of the Parties on the Implementation of NAPAs

6. At its ninth and eleventh sessions, the Conference of the Parties adopted two decisions specifically addressing financing from the LDCF to assist LDC Parties to implement their NAPAs. Decisions 6/CP9 and 3/CP11 read as follows.

7. ***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 programs of action and for its efforts to mobilize resources for the Least Developed Countries Fund:

(a) *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;

(b) *Requests* the entity to support the implementation of national adaptation programs of action as soon as possible after their completion;

(c) *Requests* the entity to take into account, *inter alia*, the following elements when developing operational guidelines for funding of the implementation of national adaptation programs of action:

(i) Ensuring a country-driven approach, in line with national priorities, which ensures cost-effectiveness and complementarity with other funding sources;

(ii) Equitable access by least developed country Parties to funding for the implementation of national adaptation programs of action;

(iii) Criteria for supporting activities on an agreed full-cost basis, taking account of the level of funds available;

(iv) Guidelines for expedited support;

(v) Urgency and immediacy of adapting to the adverse effects of climate change; and

(vi) Prioritization of activities.

(d) *Requests* Parties to make completed national adaptation programs of action available to the Global Environment Facility and to the secretariat for further dissemination to the Parties;

(e) *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 programs of action;

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

8. ***Decision 3/CP.11: Further guidance for the operation of the Least Developed Countries Fund***, provides additional guidance for the operation of the Least Developed Countries Fund:

“The Conference of the Parties,

Recalling Article 4, paragraph 9, of the Convention,

Recalling its decision 6/CP.9,

1. *Decides* that the operation of the Least Developed Countries Fund should be consistent with the following principles:

(a) A country-driven approach, supporting the implementation of urgent and immediate activities identified in national adaptation programmes of action, as a way of enhancing adaptive capacity;

(b) Supporting the implementation of activities identified in national adaptation programmes of action, and of other elements of the least developed countries work programme identified in decision 5/CP.7, in order to promote the integration of adaptation measures in national development and poverty reduction strategies, plans or policies, with a view to increasing resilience to the adverse effects of climate change; and

(c) Supporting a learning-by-doing approach;

2. *Decides* that full-cost funding shall be provided by the Least Developed Countries Fund to meet the additional costs[6] of activities to adapt to the adverse effects of climate change as identified and prioritized in the national adaptation programmes of action;

3. *Requests* the Global Environment Facility to develop a co-financing scale for supporting activities identified in national adaptation programmes of action, taking into account the circumstances of least developed countries;

4. *Decides* that activities, identified in national adaptation programmes of action, that are not supported through full-cost funding as described in paragraph 2 above, will be co-financed through the scale referred to in paragraph 3 above;

5. *Requests* the Global Environment Facility to develop flexible modalities that ensure balanced access to resources given the level of funds available, in accordance with decision 6/CP.9;

[6] For the purpose of this decision “additional costs” means the costs imposed on vulnerable countries to meet their immediate adaptation needs.

6. *Invites* Parties included in Annex II to the Convention to continue contributing to the Least Developed Countries Fund for the implementation of national adaptation programmes of action;

7. *Decides* that, given the unique circumstances of the Least Developed Countries Fund, the operation of the fund shall not set a precedent for other funding arrangements under the Convention;

8. *Requests* the Subsidiary Body for Implementation to review, at its twenty-sixth session (May 2007), the experiences gained from the implementation of national adaptation programmes of action, including those in accessing funds from the Least Developed Countries Fund;

9. *Requests* the Global Environment Facility to ensure the separation of the administration and activities of the Trust Fund of the Global Environment Facility and the Least Developed Countries Fund;

10. *Requests* the Global Environment Facility to include, in its reports to the Conference of the Parties, information on the specific steps it has taken to implement this decision, for consideration by the Conference of the Parties at subsequent sessions;

11. *Decides* to assess progress in the implementation of this decision and consider the adoption of further guidance, as appropriate, at its fourteenth session (December 2008)."

9. As NAPAs are soon to be completed, and with the guidance adopted by these recent sessions of the COP, the LDCF is expected to begin facilitating the implementation of NAPAs. This will require additional resources to be made available to the Fund. This programming paper will guide the provision of assistance to countries for the implementation of activities called for in their NAPAs. It also is the basis on which additional financial resources for the LDCF have been mobilized.

III. Programming Areas under NAPA Implementation

Preliminary analysis of NAPAs: Identification of clusters for urgent and immediate action

10. Decision 6/CP.9 calls upon the LDCF to support the implementation of NAPAs as soon as possible after their completion. It is therefore proposed that the funds currently committed to the LDCF be immediately made available to assist LDCs to implement their completed NAPAs. Additional donor contributions are anticipated in 2006.

11. The GEF will work with eligible Parties that have completed their NAPAs to finance each country's priority activities, taking into account the principle of balanced access to the LDCF for all eligible parties. It is expected that by the time a country is well advanced in implementing its first project, additional funds will be available to allow the country to move on to additional projects. 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, and is cognizant of the limited absorptive capacity of LDCs.

12. As many countries are nearing completion of their NAPAs, they have already made informal presentations of their key results during workshops and international gatherings. Therefore, some of the urgent and immediate activities that will need financial support have already been identified[7]. A few of the priority sectors of intervention and sample project ideas are listed below:

(a) Water resources: Expanded use of rainwater harvesting and storage for domestic and irrigation water supplies; protection of water supply sources; and improved water resource planning to account for heightened variability and vulnerability.

(b) Food security and agriculture: Increased utilization of no-till agriculture techniques, including in tidal areas and wet conditions; improvements of weather and crop-suitability; and increased use of traditional crops to reduce crop-production variability in response to increased temperature and rainfall variability.

(c) Health: Greater emphasis on monitoring the incidence of and expanding control of vector-borne diseases at and beyond current boundaries.

(d) Disaster preparedness and risk management: Increased emphasis on development of early warning systems against climate-related extreme events; monitoring of conditions for and development of programs to respond to glacial lake outburst flooding, droughts, and flooding; and raised awareness and understanding of local communities about the necessity and benefits of preparedness for climate hazards.

(e) Infrastructure: Review and revision of appropriate regulations and policies relevant to construction of buildings, roads, bridges, culverts and sewers; urban planning; and coastal defense structures.

(f) Natural resources management: Enhanced support to community-based forest fire management and prevention; increased experimentation with cultivating salt-tolerant fish species in areas prone to sea-level rise; and renewed efforts to promote sustainable fisheries.

(g) Community level adaptation is also recognized as a cross-sectoral priority measure requiring urgent attention. Although these priority areas of concern will

[7] Additional activities that might bear further exploration and consideration include a more pro-active development and use of the tools of the insurance industry to promote more effective policies and new business models for climate-related risk management. Such models might include linking the vulnerability of the populations-at-risk to measurable indicators of climate risk and creating insurance policies or derivatives that will pay to cover the economic value of those vulnerabilities if climate change extends beyond the defined coping range for that climate-related risk or disaster.

doubtless change as additional NAPAs are completed, it provides an important indication of some of the key sectors requiring assistance.

Adaptation and Climate-Resilient Development

13. The provision of human needs essential for continued development (e.g., water supply and sanitation, food security, and health) will be threatened by the adverse impacts of climate change. Adaptation must be viewed in the context of development. It cannot meaningfully be addressed in isolation. Many vulnerable populations have already developed sound practices to deal with climate variability as part of their successful economic and social development patterns. The LDCF will support projects to increase the adaptive capacity and to reduce the vulnerabilities of the LDCs to climate change by addressing the most urgent and immediate needs as part of efforts to foster *climate-resilient development*.

14. To achieve the objective of climate-resilient development, climate change adaptation interventions (ie., climate change risk-response measures) should be integrated into national development policies, plans, programs, projects and actions. The proposed approach for effective implementation of NAPAs is to integrate urgent and immediate adaptation measures into the development activities of each LDC, taking into account national circumstances and economic and social priorities. For example, in the area of water resources, the aim of adaptation is to reduce the vulnerability of societies to variations in water availability or quality due to increased climate variability (flooding, droughts, etc.). The literature includes different definitions of adaptation measures, including *soft* measures (e.g., forest management, mangrove or wetland restoration; etc.); *non-structural measures* (e.g. regulations, financial penalties or rewards; market mechanisms; etc.,); and *structural measures* (e.g. structural flood control; installation of irrigation equipment; bore-holes to augment flows, etc.).

15. Additional food insecurity attributable to climatic variations may have already been observed in some LDCs. In the food security/agricultural sector, adaptation to climate change may draw from a large catalogue of measures such as enhanced crop rotation, use of climate resilient crop varieties, and alternative tillage systems, to name but a few. Implementing appropriate adaptation measures in this sector should serve to enhance food security at both the national and international levels.

16. In the public health sector, adaptation is aimed at reducing the burden of diseases (morbidity and mortality) associated with climate change. Adaptation measures can be facilitated by enhanced early warning systems, and by increased disease surveillance. LDCs may also benefit from south-south exchange of ongoing good practices, such as existing measures to control malaria and cholera through a combination of modern medicines and traditional local herbs (a practice currently followed by communities in the Lake Victoria region).

17. This paper does not include examples of stand-alone adaptation. Nevertheless, it is recognized that, should interventions unrelated to existing development activities be needed to implement a NAPA, they will be given full consideration. Considerable effort will be required both to incorporate climate change risks and adaptation measures into development and to cover the additional costs associated with this process.

IV. Financing of Additional Costs under the LDCF

18. Addressing the adverse impacts of climate change imposes an additional cost on vulnerable countries in their effort to achieve national sustainable development goals. For purposes of Decision 3/CP.11, the term "additional costs" is taken to mean the costs imposed on vulnerable countries to meet their immediate adaptation needs.

19. LDCF support to adaptation projects will be based on identifying and meeting additional costs. Activities that would be implemented in the absence of climate change constitute a project *baseline,* and the costs of achieving this development scenario are referred to as baseline costs or baseline financing. The altered plan of action required to achieve the national sustainable development goals, to build adaptive capacity, and to increase resilience to the anticipated climate change comprises an *adaptation scenario.* The costs of this adaptation scenario constitute the total project costs and will normally exceed the costs of the baseline scenario. The additional costs associated with meeting these extra adaptation needs imposed on the country by the effects of climate change will be supported by the LDCF. The costs of the baseline activities are expected to be met through normal development expenditures, such as government budgets, bilateral aid, contributions from the private sector, NGO resources, and loans from international financial institutions, including IDA. Baseline financing will normally serve as co-financing for the additional costs of financing adaptation projects provided through the LDCF.

20. For example, a city in a vulnerable country may be planning to build a new water supply system. Under the baseline conditions prevailing without climate change, the cost of these activities would include the cost of construction, operation, maintenance, and training for the communities concerned. These baseline costs would be met through the water agency's development budget. However, in the face of expected increased drought and flooding expected due to climate change, the water supply system might have to be redesigned to include (additional) specific measures to conserve more water; to improve drought/flood planning and preparedness; to strengthen storage facilities; and to provide more flexible access to alternative sources of fresh water. The total costs of the new, re-designed, project are considered the costs of the adaptation scenario. The difference between the costs of the adaptation scenario and the baseline scenario are the additional costs of building the water supply system in the face of global warming. It is these additional costs which would be supported by the LDCF.

21. Under the LDCF, in-kind contributions must be carefully evaluated and accounted for so that they can be included in the estimation of total costs. Like existing governmental budget contributions, they will make up a critical component of total project funding, constituting the baseline financing

22. In summary, the LDCF will provide financing for the additional costs imposed on vulnerable LDC countries to meet their urgent and immediate adaptation needs, identified in their NAPAs. The LDCF support will normally build upon the foundation provided by national development budgets, including in-kind contributions, and can be viewed as "cost-sharing" to the pre-existing sources of development financing.

Methods to Calculate Additional Costs

23. Projects responding to the urgent and immediate adaptation needs of LDCs may be submitted for financing to the LDCF. In order to justify the request for LDCF financing, all projects must estimate the additional costs of the proposed measure. The following sections discuss both the longer, more formal method of calculating additional costs and a simplified method relying upon the use of a sliding scale.

Additional cost estimation

24. When a project is submitted for LDCF funding to support adaptation measures prioritized in the NAPA as urgent and immediate, the requested financing should be justified on the difference between the costs of two scenarios: the baseline scenario and the adaptation scenario. This estimation of additional costs requires that the following two scenarios be fully developed and their costs estimated:

(a) Baseline scenario: The purpose of this scenario is to identify what course of action would be taken in the absence of climate change. It seeks to answer the question, "What development activities would be pursued by the country in the absence of climate change and how much would they cost to implement?"

(b) Adaptation scenario: The purpose of this scenario is to identify the course of action that will have to be taken to respond to the adverse impacts of climate change so as to achieve sustainable results. It seeks to answer the question "How should the development objective be achieved, taking into account the impacts of climate change, and how much will it cost to implement measures necessary to respond to such impacts?" This scenario description must include a description of the project components and activities to be implemented to address the adverse impacts of climate change.

25. The estimated costs of the baseline scenario will be covered by existing financing, such as existing budget lines, ODA contributions, IDA loans, in-kind contributions, or government budgeted funds. The estimated costs of the adaptation scenario should include both the costs of activities that will achieve the goals of the baseline scenario as well as the cost of the additional activities made necessary by climate change. The cost difference between these two scenarios is defined as the "additional costs" of the adaptation intervention. The LDCF should normally finance the "additional costs" of the project. The estimation of the additional cost calculation must avoid double counting of bilateral and multilateral support for mainstream development, thereby, ensuring that LDCF resources address only vulnerability and adaptation needs.

26. An expansion of the earlier hypothetical example of the urban water supply project may demonstrate this estimation process more clearly. Suppose that the cost of the water supply investment was estimated as $20m under the baseline scenario. These funds are to be paid out of the national budget. However, after consultation with the NAPA Team, the water resources authority decides to reconsider the design of the system to account for wider variability of water supplies. After careful consideration, it may be decided that the design of the urban water supply should be changed to account for increased climate variability. The redesigned system

considered appropriate for the adaptation scenario might include stronger reinforcement for protecting against more frequent floods and larger storage potential to protect against droughts. Its costs are estimated at $25m (including the costs of the redesigning itself). In this hypothetical example, the additional costs, that is, the difference between the costs of the baseline and adaptation scenarios, equals $5m. The request for additional funding from the LDCF would be $5m and the remaining $20m of the project costs should be financed from the national budget, the source for the baseline financing.

A Simplified Approach to Estimating Additional Costs: The Sliding Scale

27. In practice, it may be difficult to assess *ex-ante* the additional cost of adaptation, as the construction of detailed baseline and adaptation scenarios can be quite complex, time-consuming, and imprecise. Because the limited experience of implementing adaptation interventions and scenarios provides few examples of similar activities to draw upon, the task may be quite intellectually challenging.

28. Consequently, to simplify the calculation of the additional costs, project proponents may choose to use a sliding scale or proportional scale which takes into account the size and nature of projects. If the project's financing structure fits within the limits set by this scale, the project's requested funding shall be considered an acceptable approximation of the project's additional cost. The sliding scale or proportional scale shall serve as a "short cut" or a proxy to simplify the estimation of additional costs. It focuses on reasonable cost-sharing ratios for projects of a specific size. This rationale builds upon the assumption that smaller LDCF projects typically focus on "soft" activities, such as capacity building and training. Because virtually no capacity building for adaptation would be required in the absence of climate change, the additional costs of the proposed activities are expected to constitute a very large fraction of the total project costs. In contrast, larger projects are typically focused on infrastructure investments wherein the adaptation elements comprise a smaller share of total costs. As a result, the additional costs of these larger projects would normally be expected to constitute a smaller fraction of the total project costs.

29. The use of the sliding scale is optional, but it is meant to simplify the preparation of projects identified in NAPAs. Recognizing that the least developed countries are among the most vulnerable to the adverse effects of climate change because of widespread poverty and limited adaptive capacity, the proposed sliding scale for use under the LDCF requires less co-financing for smaller projects than the scale proposed for the SCCF (GEF/C.24/12).

30. If the requested LDCF financing as a fraction of total project costs falls within the bounds set by the sliding scale, the project can be supported by the LDCF without submission of detailed baseline and adaptation scenarios required for the determination of additional costs. On the other hand, for projects not conforming to the limits set by the sliding scale, proponents may wish to construct the two scenarios needed to demonstrate that the additional cost financing being requested exceeds the limits set by the proposed sliding scale.

Proposed Sliding Scale for the LDCF

31. The sliding scale is designed to link total projects costs with a proportion of total cost funding that can be provided by the LDCF. It does not require the development of baseline or adaptation scenarios; rather, it assumes that projects of a specified size will share characteristics that will permit the LDCF to provide an agreed-upon percentage of total funding regardless of the details of the activities being proposed. Initially, the following levels of support or "steps" are proposed for the sliding scale:

(a) For projects whose total cost does not exceed US $300,000, LDCF funding may be provided for up to 100% (or $300,000) of project costs. The rationale is that these projects, which are to focus on capacity building and community-based initiatives, are almost exclusively additional in nature. Therefore, the need for financing from non-LDCF sources is minimal;

(b) For projects whose total cost ranges from US $300,000 to not more than US$500,000, LDCF funding may be provided for up to 75% of those costs (or a maximum of $375,000). In this case, the rationale is that such activities will still be largely additional in nature, but they are likely to be linked to micro investments and demonstrations which would be likely to occur in a slightly less-resilient manner in the absence of climate change. Because projects in this size range will largely consist of capacity-building activities, in-kind contributions are expected to be an essential form of co-financing and will be accounted for at their full, nominal value;

(c) For projects whose total cost ranges from US$500,000 to not more than US$6,000,000, LDCF funding may be provided for up to 50% of those costs (or a maximum of $3,000,000). Projects in this size range are expected to have small investment components that would require baseline investments in addition to the support provided for adaptation-related technical assistance and capacity-building;

(d) For projects whose total cost ranges from US$6,000,000 to US$18,000,000, LDCF funding may be provided for up to 33% (1/3) of total project costs (or a maximum of $6,000,000). These projects represent increasingly significant investments and therefore will have significant baseline development investments; and

(e) For projects with a total cost greater than US$18,000,000, LDCF funding may be provided for up to 25% of the total project costs (up to a maximum limit determined by overall LDCF funding availability). These projects represent major investment projects that would require significant investment financing even in the absence of global climate change. In such cases, the LDCF contribution would be expected to be a small, additional cost contribution to create "climate-resiliency" in a much larger baseline investment.

32. In addition, for all cases beyond the first step listed in (a) above, projects in a higher step or total cost range may access the higher of either the allowable percentage for that step or the maximum total grant size of projects in the next lower category. For example, a project having with a total cost of $350,000, could receive a grant of $300,000 which is the maximum absolute amount of funding available under the lower project size limit, instead of $262,500, which would be the amount allowable under a literal application of the sliding scale.[8] The terms, proportions and limits proposed for the sliding scale will be continually re-evaluated and re-considered so that they can be tailored to fit the special needs of LDC participants.

Full-cost Funding

33. On the operational level, full cost funding beyond the ranges proposed for sliding scale ratios may be considered for the less frequently expected case of stand-alone adaptation projects. In such instances, the additional costs of the proposed activity must coincide with the total cost of the project, which means that the adaptation interventions are 100% additional and are not linked to any existing or planned development activity in the sector or location under consideration. Although stand-alone interventions are considered less likely than adaptation interventions integrated into ongoing or planned development activities, the full cost option will be considered, where justified by national or local circumstances.

34. For any projects larger than $300,000, the complete additional cost methodology must be utilized to justify full-cost funding. For smaller projects, on-the-ground experience obtained from the Small Grants Program (SGP) has shown that even for projects at a micro-scale, better project results are achieved when communities raise additional funds and/or provide meaningful in-kind contributions. Local contributions, even if they are only of in-kind resources, increase the ownership and commitment that communities feel toward projects and tend to make those projects more sustainable over time.

35. As with all proposed elements for programming under the LDCF, the use of additional costs and the sliding scale will be carefully monitored over the first two years of operation. This will allow adjustments to be made to compensate for any shortcomings or difficulties identified from the application of the methods and concepts proposed in the above discussion.

V. EXPEDITED PROJECT PROCESSING

36. COP guidance calls for expedited support to address the urgent and immediate needs of LDCs to adapt to the adverse impacts of climate change. Consequently, an expedited modality is proposed for project review and approval under the LDCF.

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[8] This condition seeks to avoid punitive conditions at the lower boundary of each step of the sliding scale. Pragmatically, this means that in the second step (b), projects with a total project cost falling between $300,000 and $400,000 could access a maximum of $300,000. In the third step (c), projects having a total cost between $500,000 and $750,000, could access a maximum of $375,000. On the fourth step (d), projects with a total project size between $6m and $9m could access a maximum of $3,000,000, and on the fifth step (e), projects with a total cost between $18m and $24m could access a maximum of $6,000,000.

37. Countries wishing to support small-scale community-based adaptation projects may do so by setting aside resources not to exceed the limit mentioned in bullet (a) of the sliding scale above, to be allocated via the Small Grants Program (SGP) structure, or a similar mechanism in cases when the SGP is not in place. The proposals for those projects will have to specify: the size limit of the individual community-based project to be supported; the criteria that will be used to establish eligibility and select projects; and the composition of the Steering Committee that will make the decisions at the national level.

38. For projects requiring up to $2m in LDCF financing, the GEF MSP project cycle will be followed. The MSP procedure is already expedited (projects submitted on a rolling basis and reviews completed within 15 working days), and extra effort will be made by the GEF Secretariat and the Implementing Agencies to ensure that projects are quickly developed and approved through these pathways. The amount of time required from project submission to project approval will be monitored so as to better identify and address any bottlenecks in the process.

39. For all full-size projects (requesting >$2m of LDCF financing) under the LDCF, it is proposed that project processing occur on a rolling basis. That is, project concepts can be submitted to the GEF Secretariat whenever they are considered ready for entry into the LDCF pipeline. Pipeline entry serves as a crucial point in project development since it provides not only early reassurance that the project to be developed is consistent with the mandate of the LDCF, but also an opportunity for the GEF Secretariat to manage project requests so as to ensure balanced access to resources given the total level of funds available.

40. Requests for financing of project preparation under the LDCF (PDF financing) will also be considered as and when the requests are submitted to the GEF Secretariat.

41. Project proposals requiring Council approval will also be done on a rolling basis. When a proposal is received by the GEF Secretariat for approval, the Secretariat will circulate it to the GEF Council by mail for approval on a “no objection” basis. A project will be approved unless four Council Members request that the project be considered at a Council meeting prior to its approval.

42. These procedures for approving LDCF project financing on a rolling basis are different from those followed for the GEF Trust Fund, and as such, will require Council approval before they can be implemented. (Annex B presents these differences in tabular form.)

43. In elaborating upon these procedures, the GEF Secretariat and Implementing Agencies will agree on time-bound standards within which each step of the process must be completed. For example, it may be proposed that all reviews to be undertaken by the GEF Secretariat be undertaken within 15 working days of their receipt by the Secretariat. Compliance with the agreed standards will be monitored, and regular reports will be presented to the GEF Council on how these standards are being met. It is expected that these procedures and compliance standards should significantly expedite the preparation, approval and implementation of proposals to be financed by the LDCF.

VI. CRITERIA FOR PROJECT PROPOSALS

Review Criteria

44. Proposals submitted for funding under the LDCF will be reviewed in light of agreed project criteria, drawn from the COP guidance. These criteria include country ownership; program and policy conformity; financing; institutional coordination and support; and monitoring and evaluation. For purposes of the LDCF, these criteria will be understood as follows:

(a) *Country ownership* includes two considerations: country eligibility and country drivenness. For a country to be eligible to receive funding for NAPA implementation under the LDCF, it should be an LDC Party to the UNFCCC that has completed its NAPA. In terms of country drivenness, the project proposal should be identified as a priority activity in the country's NAPA; it should show evidence of stakeholder consultation and support; and it should take into account other relevant local, national or regional studies and projects.

(b) *Program and policy conformity* includes four aspects: program conformity; project design; sustainability and stakeholder involvement. In terms of program conformity, the project document should demonstrate that the proposal has been developed in compliance with the NAPA rules and procedures and represents the response to an urgent and immediate adaptation need. With respect to project design, the proposal should include a list and description of project components as well as additional cost calculation that demonstrates what would be done in a development baseline in the absence of climate change and the alternative scenario including measures that meet urgent and immediate needs that justifies the request for LDCF resources. Note that this last step will prove unnecessary should the project proposals utilize the sliding scale. In terms of sustainability, the benefits of the project, in this case increased capacity to cope with adverse impacts of climate change, should continue after project completion. Finally, with respect to stakeholder involvement, the project should provide for multi-stakeholder consultations and participation—which have proven pivotal to the NAPA preparation process—to continue during project implementation.

(c) *Financing* refers both to the development and inclusion of a financing plan and an assessment of cost-effectiveness. A financing plan should provide a summary of financing contributions to the project, including an assessment of the baseline financing being included in the project. As explained above, co-financing may include utilization of existing resources, in the form of bilateral grants, IDA loans, or other in-cash and in-kind contributions. These co-financing contributions may include existing budget lines of the core development sector under consideration. The total project cost will be the sum of the LDCF contribution and all co-financing. With respect to cost-effectiveness, the project proposal should include a discussion of the various options considered to achieve the project's goal in a way that demonstrates that the adaptation measures and activities selected represent the most cost-effective approaches.

(d) *Institutional coordination and support* is required of all projects to ensure that any potential duplication of activities is minimized and that coordination, collaboration, and consistency of approaches to other activities in the country is maximized. It is important that NAPA implementation builds upon the ongoing and upcoming activities in the same. It is also important that legitimate comments raised by implementing, executing, or other agencies are seriously and respectfully responded to and where appropriate, incorporated into a revised project design.

(e) *Monitoring and evaluation* requirements for the project will be the same as those for all GEF projects. By the time of project approval, all projects should have developed a detailed monitoring and evaluation plan that includes provision and arrangements for annual monitoring reports and independent mid-term and final evaluations. In addition, indicators for tracking the achievement of project goal and objectives should be provided, including targets for mid-term and project completion. The baseline year or "pre-project" values for these indicators should be estimated at the time of project approval.

Choice of Implementing and Executing Agencies

45. Moving from the preparation phase to the implementation phase, countries may require a different range of expertise on the ground that will guide their choice of an Implementing or Executing Agency. It is expected that the agencies will support the LDCs by providing the necessary operational expertise and technical knowledge, based on their experience on the ground, in each sector or area of intervention prioritized by the NAPAs. Each eligible country may choose the Implementing or Executing Agency that it deems appropriate to implement activities under its NAPA. This choice may be entirely independent from any previous agency choices, regardless of which agency assisted in NAPA preparation.

Coordination with other organizations and institutions

46. Agriculture, public health and disaster risk management are often listed among the areas of intervention prioritized by the NAPAs. These are areas where the LDCs, the GEF and its Implementing and Executing agencies may benefit from new partnerships with institutions that have the technical expertise and the experience to support the implementation of NAPA projects, such as the Red Cross, the UN Disaster Relief Office and the World Health Organization. Coordination with additional technical organizations is strongly recommended to support LDC efforts to address their vulnerability to climate change and to achieve their sustainable development objectives. A Government and the Implementing Agency may work with any executing agency to implement a project's implementation.

VII. Further Considerations

47. Because of the special nature of the LDCF and the likely evolution of adaptation needs, several other considerations should be raised in the context of NAPA implementation.

Eligibility

48. Under the LDCF, financing will be available to all Least Developed Countries which are also Parties to the UNFCCC. Currently, forty-nine countries have been designated as least developed countries by the UN; of these, forty-eight are parties to the UNFCCC. The list of LDCs is reviewed every three years by the UN Economic and Social Council (ECOSOC).

49. Eligibility will be determined at the time that a funding decision must be made. This is normally either for a request for project preparation funds or for project approval. On the date that the funding decision is to be made, the GEF Secretariat will review the status of a country as an LDC Party. If a country is eligible on that date, the decision will move forward. Once funds are approved, those funds will not be rescinded, even if a country were to graduate from the LDC group.

50. Activities to be financed from the LDCF will be complementary to – i.e. not duplicating or overlapping with – those funded by the Special Climate Change Fund (SCCF) and the GEF Trust Fund.

Balanced Access

51. Decisions 6/CP.9 and 3/CP.11 call for balanced access by least developed country Parties to funding for the implementation of national adaptation programs of action.

52. Balanced access to LDCF resources should provide that there will be no advantage or disadvantage in submitting projects for NAPA implementation based purely on timing. This will avoid a "first-come, first-served" determination of funding. The approach to balanced access should be flexible, and take into account different factors, such as vulnerability to climate change and type of interventions to address it; national and local circumstances including population and country size; and national and local capacity to cope with current variability and future change.

53. To ensure that resources are available to meet urgent needs, an approximate range of resources to implement first NAPA projects may be estimated once the size of the fund for the first round of implementation of NAPAs has been ascertained. LDCs will have the option to decide how to use the first round of LDCF resources, either through one relatively large project that addresses the first priority identified by the NAPA or through a number of smaller projects that address the multiple priorities listed in the NAPA. The GEF Secretariat and Implementing Agencies will then monitor the requests for projects through their LDCF pipeline management.

54. The approach to balanced access to LDCF resources will be re-examined and evaluated with a view to modification throughout the fund's lifetime, to take into account experience gained, the balance of the LDCF and the continuing needs for further support from the LDCF.

Source of Financing

55. As called for by the COP guidance, Parties included in Annex II of the Convention and other Parties included in Annex I that are in a position to do so, have been invited to make contributions to the LDCF for the preparation of NAPAs. A meeting is scheduled for April 2006 to discuss this programming paper and to solicit additional contributions from such parties for the implementation of NAPAs.

56. The GEF will continue to mobilize funds for subsequent rounds of NAPA implementation until the areas of intervention prioritized by the NAPAs are addressed. It is expected that a pledging meeting will be scheduled every two to three years. Donor countries will continue to have the option to contribute to the LDCF on a rolling basis, consistent with their budget and financial plans.

Additional Guidance

57. These programming 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 A

Update on NAPAs: Financing for the Preparation of NAPAs Approved by the GEF

	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	Solomon Islands	UNDP	200,000	6/16/2005
37	Sudan	UNDP	200,000	4/17/2003
38	Tanzania	UNEP	200,000	3/21/2003
39	Togo	UNDP	200,000	3/18/2004
40	Tuvalu	UNDP	200,000	2/12/2003
41	Uganda	UNEP	199,790	7/15/2003
42	Vanuatu	UNDP	200,000	4/7/2003
43	Yemen	UNDP	200,000	1/16/2003

44	Zambia	UNDP	197,500	12/5/2003
45	Global	UNDP	633,538	4/16/2003
46	Global	UNDP	211,126	9/2/2003
	Total		9,615,219	
LDC Country Parties that have not yet received financing for the preparation of a NAPA				
	Country	**Implementing Agency**	**Suggested Amount**	**Preparation Status**
1	Angola	UNEP		Under Preparation
2	Equatorial Guinea	UNEP		No government response yet
3	Myanmar	UNEP		Delayed at country request
4	Nepal	UNEP		No government response yet

Annex B

Streamlined Project Cycle: The GEF Trust Fund vs. the LDC Trust Fund

Project Cycle Stage	**Approval Procedure**	**GEF Trust Fund Projects > $1m** (Frequency of Review Activity)	**LDC Trust Fund Projects > $2m** (Frequency of Review Activity)
Pipeline Entry	GEF Sec Review for Pipeline Entry and CEO Approval	Review period undertaken 4 times per year	Reviewed on a rolling basis throughout year
PDF B Approval	GEF Sec Review for PDF B Approval By CEO	Reviewed on a rolling basis throughout year	Reviewed on a rolling basis throughout year
WP Entry	GEF Secretariat Review for WP Entry	Review period undertaken 4 times per year	Reviewed on a rolling basis throughout year
	GEF Council Review for WP Entry	Posted 6 weeks prior to GEF Council meeting two times per year—any Council member may object within 2 weeks after meeting Or Circulated for approval on a "no objection" basis for 4 weeks two times per year—any Council member may object during review period If one objection received in either case, proposal is submitted for discussion at next GEF Council meeting	Posted on a rolling basis for Council approval over a 4 week period Approval given on a "no objection" basis after circulation period: unless 4 Council members request that a proposal be submitted to the next Council meeting for approval.
CEO Endorsement	GEF Secretariat review to recommend CEO endorsement	Ten working day review undertaken on a rolling basis	NA
	Council review prior to CEO endorsement	Posted for 4 week circulation period on a "no objection" basis	NA