



## Global Environment Facility

GEF/LDCF.SCCF.2/4

May 17, 2007

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LDCF.SCCF Council Meeting  
June 15, 2007

Agenda Item 5

PROGRAMMING TO IMPLEMENT THE GUIDANCE FOR THE  
SPECIAL CLIMATE CHANGE FUND ADOPTED BY THE  
CONFERENCE OF THE PARTIES TO THE UNITED NATIONS  
FRAMEWORK CONVENTION ON CLIMATE CHANGE  
AT ITS TWELFTH SESSION

### **Recommended Council Decision**

The LDCF/SCCF Council reviewed document GEF/LDCF.SCCF.2/4, *Programming to Implement the Guidance of the Special Climate Change Fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Twelfth Session*, and endorses the programming document as an operational basis for funding activities under the SCCF consistent with the guidance of the UNFCCC.

The LDCF/SCCF Council requests the Secretariat to take steps to mobilize additional resources for the fund and to keep the LDCF/SCCF Council informed of progress being made in implementing the programs of the SCCF. The Secretariat should bring to the attention of the LDCF/SCCF Council any adjustments that may be required to the SCCF programming as experience is gained in developing and implementing projects.

The LDCF/SCCF Council requests the Secretariat to make the programming document available to the thirteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change to be convened in Bali, Indonesia, in December 2007.

## **I. INTRODUCTION**

1. At the seventh session of the Conference of the Parties to the UN Framework Convention on Climate Change held in Marrakesh, from October 29 to November 10, 2001, (COP7) the GEF, as a financial mechanism of the Convention, was requested to operate two new funds related to the UN Framework Convention on Climate Change (the Special Climate Change Fund and the Least Developed Countries Fund). Furthermore, the GEF was invited to make arrangements for the establishment of these funds.

2. The ninth session of the Conference of the Parties to the Convention provided guidance to identify program priorities for financing within the broad scope of the mandate of the Special Climate Change Fund (Decision 5/CP.9). Additional guidance was provided at the twelfth session of the Conference of the Parties (Decision 1/CP.12).

3. In approving the establishment of the funds, the Council agreed on the following operational principles:

- (a) project proposals will only be proposed for approval to the Council or the CEO to the extent that funds are available in the trust fund concerned.
- (b) the GEF will keep separate and distinct the program of activities financed by the GEF Trust Fund from those financed by each of the new funds established by the Conference of the Parties. Costs associated with operating each fund as well as those associated with activities to be financed from a particular fund will be charged to such fund. Separate accounts and reporting will be maintained. Once the funds become operational, a report on each fund will be submitted to the Council at each of its regular meetings.
- (c) the GEF will seek to maximize the collective impact of its climate change funding provided through the GEF Trust Fund and the new funds by avoiding duplication of activities.
- (d) the GEF project cycle, including expedited procedures, implementing structure and monitoring and evaluation policies and procedures will be applied in preparing and managing projects and programs. As the GEF project cycle has recently been streamlined, the SCCF pipeline procedures will also follow those new streamlined procedures.
- (e) the World Bank is to be requested to serve as the Trustee of the new funds.

4. In accordance with UNFCCC guidance, the Special Climate Change fund will finance activities, programs and measures relating to climate change, that are complementary to those funded by the resources allocated to the climate change focal area of the GEF and by bilateral and multilateral funding, in the following areas:

- (a) adaptation
- (b) transfer of technologies
- (c) energy, transport, industry, agriculture, forestry and waste management; and
- (d) activities to assist developing countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products in diversifying their economies.

5. The SCCF is to serve as a catalyst to leverage additional resources from bilateral and other multilateral sources. Activities are to be country-driven, cost-effective and integrated into national sustainable development and poverty reduction strategies.

6. At its meeting in August 2006, the Council agreed that with respect to decision making for the LDCF and the SCCF, the Council will meet at the Council for the LDCF and the SCCF (LDCF/SCCF Council). Any decisions or actions directly affecting only the LDCF or the SCCF is to be delegated to the LDCF/SCCF Council.

7. At its meeting in November 2004, the Council reviewed document GEF/C.24/12, *Programming to Implement the Guidance for the Special Climate Change Fund adopted by the Conference of the Parties to the UN Framework Convention on Climate Change at its Ninth Session*, and endorsed the programming document as an operational basis for funding of activities under the SCCF. The purpose of this paper is not to repeat the conditions and priorities established for the SCCF programs for adaptation and transfer of technologies in that programming paper as they continue to serve as a useful basis for activities in these two areas. Rather, this paper notes proposed changes in focus in the existing programs, and presents proposed programming directions for implementing the two new programs that were agreed under recent guidance received from the twelfth session of the Conference of the Parties to the UNFCCC (Decision 1/CP.12).

## **II. PROGRAM FOR ADAPTATION**

8. Convention guidance<sup>1</sup> for the implementation of the Special Climate Change Fund (SCCF) gives adaptation the highest priority. A programming paper<sup>2</sup>, which specifically reflects that guidance, was submitted and approved by the GEF Council on November 2004. As no further guidance was given to the GEF on the issue of adaptation, this paper does not propose any new programming. However, at the last LDCF/SCCF Council meeting, a request was made for a more robust results framework. Document GEF/LDCF.SCCF.2/Inf.4 presents a draft of on-going work that is being undertaken by the GEF Secretariat and the GEF agencies to develop indicators for use in tracking results from adaptation projects.

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<sup>1</sup> Decisions 5/CP.7, 7/CP.7 and 5/CP.9

<sup>2</sup> GEF/C.24/12 "Programming to implement the guidance for the SCCF adopted by the COP to the UNFCCC at its 9<sup>th</sup> Session"

### **III. PROGRAM FOR TRANSFER OF TECHNOLOGIES**

#### **Implementation Status**

9. Program activities for the program on transfer of technologies were designed based upon COP guidance and the SCCF programming paper (GEF/C.24/12), consultations with relevant stakeholders, and other relevant documents. Both the GEF Secretariat and UNDP/GEF undertook analyses of the UNFCCC Parties' technology needs assessments. Particularly helpful in this respect was the synthesis report on technology needs identified by Parties not included in Annex I to the Convention prepared by the UNFCCC Secretariat (FCCC/SBSTA/2006/INF.1), and consultations with the UNFCCC Secretariat. In addition, the GEF Secretariat has attempted to solicit proposals from countries and agencies.

10. Projects under this program seek to meet the technology transfer priorities expressed by a large number of interested parties, while remaining complementary to the GEF Trust Fund and flexible and effective in approach. Due to changes in program expectations and the ongoing discussion of technology needs and priorities in the UNFCCC, the first projects proposals under the program on the transfer of technology are expected to be submitted for approval during the last portion of 2007.

#### **Program Objectives, Indicators and Targets**

11. The natural objective for this program is to transfer technologies: its impact will be expressed in the form of investments in environmentally sustainable technologies. Towards this objective, the following results indicators are proposed:

- (a) Number of technology transferring transactions. This indicator is supposed to measure the impact, effectiveness and cost-effectiveness of the technology transfer program. Transactions are necessary to achieve investments, and thus are a useful indicator to express the impact that the technology transfer program can show on the ground. Transactions are, for example, licensing agreements, procurement contracts, joint ventures, or other transactional arrangements that will lead to investments in ESTs. Each project under the program will have to contribute to this indicator.
- (b) Number of technologies covered. This indicator is expected to measure the diversity and impact of the technology transfer program.

12. The projects under this program will contribute to capacity building, enabling environments and policy frameworks. As it is difficult to define aggregable and quantitative indicators that measure progress in these areas, there will be no programmatic indicators for the program on technology transfer. Instead, there will be the requirement that each project demonstrate how it contributes towards progress in these areas.

#### **Program Activities**

13. The programming modalities for the program on technology transfer were described in paper GEF/C.24/12. In that paper, paragraph 75 defines the setup of a technology transfer program. Since the approval of the programming paper, through efforts to identify projects, it has become clear that there is a principal choice to be made between programming that is technology or sector specific (as proposed in the programming paper), and programming for a more general technology transfer program that will allow for investments in a number of technologies and sectors to respond more flexibly to the needs of different countries. It is now proposed that shifting to the latter approach would be more appropriate as:

- (a) it can be more focused around the specific activities necessary for technology transfer,
- (b) it can be more flexible to respond to country needs, and
- (c) it is more cost-effective in its implementation.

14. Therefore, it is now proposed that the work program for technology transfer consist of one programmatic approach that builds upon existing initiatives of the GEF and its Implementing and Executing Agencies, and in cooperation with various initiatives of the UNFCCC. The program will have two main components;

- (a) a capacity building component that builds capacity at all levels discussed in the Technology Transfer Framework of the UNFCCC (4/CP.7), and helps countries implement enabling environments amenable for technology transfer; and
- (b) a “matchmaking” component for the facilitation of technology transfer transactions, for example between technology manufacturers or project sponsors and project financiers.

15. This program will build on, support and cooperate with a number of existing initiatives, most notably the UNEP/GEF Sustainable Alternatives Network SANET, the UNFCCC initiatives TT: CLEAR and the UNFCCC/CTI/PPL initiative PFAN. PFAN, the Private Financing Advisory Network has established an effective and cost-effective structure for the facilitation of private sector financing of technology projects. Currently, discussions are underway as to how to integrate the PFAN experiences and lessons into the SCCF Technology Transfer Program, and how to structure the cooperation or integration of the two initiatives.

#### **IV. PROGRAM FOR MITIGATION IN DIFFERENT SECTORS**

##### **Programming Principles**

16. In accordance with overall programming principles, activities to be funded under this program will:

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

##### **Activities to be Financed**

17. As set out in decisions 7/CP.7 and 1/CP12., activities, programs and measures relating to climate change in the following priority areas shall be funded:

- (a) energy efficiency, energy savings, renewable energy and less-greenhouse-gas-emitting advanced fossil-fuel technologies;
- (b) innovation including through research and development relating to energy efficiency and savings in the transport and industry sectors;
- (c) climate-friendly agricultural technologies and practices, including traditional agricultural methods;
- (d) afforestation, reforestation and use of marginal land; and
- (e) solid and liquid waste management for the recovery of methane;

18. The GEF Trust Fund finances activities listed in sub-paragraph (a) and (b) under its regular programming for energy efficiency, renewable energy, and sustainable transport in the climate change focal area. In the areas of agriculture and forestry (sub-paragraph (c) and (d)), GEF has provided some funding through the biodiversity and land degradation focal areas, so care must be exercised in defining activities in these sectors. Finally, with respect to waste management, past GEF programming has focused on the recovery and utilization of methane through the programming window for short-term response measures (STRM) and the renewable energy programming. At present, programming in these sectors has been successful in increasingly making use of carbon finance. Because all these sectors have received some GEF support in the past, developing a complementary niche for funding between the activities to be supported under this program and those supported under the GEF Trust Fund poses a particular challenge.

19. Consistent with the challenge of supporting sector-based mitigation activities that are complementary to those supported under the GEF Trust Fund, activities under this program of the SCCF will be used for technical assistance, capacity building and piloting specific activities consistent with the guidance that are not currently eligible for support under the GEF Trust Fund. For example, the need to focus the GEF focal area strategies and strategic programming for GEF-4 has resulted in a proposal that the GEF not provide support for low-GHG energy generating technologies during GEF-4. Activities to meet this objective could be eligible for support under this program of the SCCF, with the experience gained being used to inform future GEF programming and future climate change mitigation activities in general.

20. In this context, it is proposed that the initial attention under this sectoral mitigation program of the SCCF should be to support programs relating to the following during the GEF-4 period:

- (a) low-GHG emitting advanced fossil fuel technologies: Under this initiative, the SCCF would fund capacity building and technical assistance work on advanced fossil-fuel energy generating technologies (such as IGCC, underground coal combustion, ultra-supercritical coal-fired generation) and complementary activities designed to reduce their GHG emissions (such as carbon capture and storage);
- (b) innovation in industrial energy efficiency and sustainable transport: In this area, targeted research and capacity building would be supported to deal with the identification of new, innovative approaches to energy efficiency in specified industries, new approaches to sustainable transport, and the formulation of sector-wide mitigation programs as relates to these two areas;
- (c) climate friendly agriculture: Under this topic, support would be provided to technical assistance, capacity building and piloting of low-GHG emitting agricultural technologies such as no-till and low-till agriculture (provided that chemicals safeguards are observed); alternatives reducing the agricultural emissions of N<sub>2</sub>O; and alternatives to traditional low-input agriculture that would decrease their overall GHG emissions; and
- (d) afforestation, reforestation, and carbon balancing: Under the GEF-4 forestry strategy for the GEF Trust Fund, targeted research to better define and refine methods for the consistent estimation of carbon stock changes in forests and agricultural land will be supported drawing from GEF support in biodiversity, climate change and land degradation focal areas. Projects under this sectoral program would seek to provide active piloting of these approaches, with particular reference to reducing the GHG impacts of land-use changes in the context of sustainable development.

21. All projects will include a succinct statement of objectives; linkages to current GEF programming priorities; an explanation of the distinctness of the approach adopted from what might be eligible under GEF financing with current programming priorities; an assessment of

country-specific need and relevance; a justification for the choice of agencies; and an assessment of the implications of the supported proposal for future GEF programming, carbon financing, including under the Kyoto Protocol, and other forms of potential future support to climate change mitigation activities.

### **Incremental Costs**

22. In line with the general principles of the Special Climate Change Fund, the fund will finance the incremental costs of the activities mentioned above, and will seek to serve as a catalyst to leverage additional resources for their implementation, and for leveraging investment in the respective sectors. The incremental costs will be those costs directly associated with securing the global benefits arising from the wide scale adoption of clean technologies in participating countries. Because of the large number of avenues available for funding these activities, care must be taken to ensure that the proposals are truly additional to existing avenues of support. Incremental analysis of proposals will focus on defining the additional costs of the proposed activities; demonstrating how they are distinct from but make use of existing programs; and what are the avenues envisioned for the eventual investments.

## **V. PROGRAM FOR ECONOMIC DIVERSIFICATION**

### **Programming Principles**

23. In accordance with overall programming principles, activities to be funded under this program will:

- (a) be country-driven, cost-effective, and integrated into national sustainable development and poverty reduction strategies;
- (b) serve as a catalyst to leverage additional resources including bilateral and multilateral sources and private sector; and
- (c) be complementary to those funded by the resources allocated to the climate change focal area of the GEF Trust Fund, the Least Developed Countries Fund (LDCF), and other bilateral and multilateral funding.

### **Activities to be Financed**

24. Activities to be financed by the SCCF will be consistent with Convention guidance and in particular decision 7/CP.7 and decision 1/CP.12. Accordingly, the SCCF will finance activities, programs, and measures in the following areas:

- (a) capacity building at the national level in the areas of:
  - (i) economic diversification;

- (ii) energy efficiency in countries whose economies are highly dependent on consumption of fossil fuels and associated energy-intensive products;
- (b) support through technical assistance the creation of favorable conditions for investment in sectors where such investment could contribute to economic diversification;
- (c) support through technical assistance the diffusion and transfer of less-greenhouse-gas-emitting advanced fossil-fuel technologies;
- (d) support through technical assistance innovative national advanced fuel technologies; and
- (e) support through technical assistance the promotion of investments in less-greenhouse-gas-emitting, environmentally sound energy sources, including national gas, according to the national circumstances of Parties.

25. Economic diversification is a long-term goal in dealing with the impacts of response measures. Therefore, the most effective way of achieving economic diversification is through promoting sustainable development by building the human, social, and institutional capacity of the countries affected. As such, promoting economic diversification should not be treated as an isolated activity independent from the course of action for sustainable development, poverty reduction, and social equity.

26. Not only should countries learn from examples of successful economic diversification, but also they need to realistically consider their own national circumstances and identify the means, measures, and actions accordingly. Countries must create an enabling environment that will foster the conditions for economic diversification, including a stable political and economic environment, conducive policies for private-sector investments, and effective and efficient governance and administration.

27. Given the long-term perspective and the complexity in shifting a country's economic structure, the role of the SCCF should be viewed as catalytic to facilitate other processes, mechanisms, and actions for economic diversification.

28. Programs and activities funded by the SCCF aimed at achieving economic diversity should be environment- and climate-friendly, and any adverse impacts should be fully assessed, mitigated, and minimized.

29. In accordance with the Convention guidance, the program for economic diversification will initially target two groups of countries: (1) those whose economies are highly vulnerable due to their heavy reliance on the importation of fossil fuels, (2) those whose economies are highly dependent on income from the export of fossil fuels.

30. Eligible activities in the program for economic diversification will include technical assistance and capacity building in the following areas:

- (a) assessment of vulnerability due to dependency on fossil fuels and the development of national strategies, economic and industrial development policies, including legal and regulatory frameworks aimed at economic diversification to reduce dependency on fossil-fuel production, export, and consumption;
- (b) facilitation of the flow of public sector investments and creation of favorable conditions for private sector investments leading to economic diversification to reduce fossil-fuel dependency;
- (c) preparation of pre-feasibility studies, business plans, and integrated strategic planning to facilitate the process and the implementation of the national and sector-specific economic diversification strategies and measures; and
- (d) promotion of diffusion and transfer of advanced, innovative, and less-greenhouse-gas-emitting fossil-fuel and alternative technologies.<sup>3</sup>

### **Additional Costs**

31. Programs and activities funded by the SCCF for economic diversification should be additional to those funded by the GEF Trust Fund, the LDCE, and other multilateral and bilateral sources. Since achieving economic diversification may not link to achieving global environmental benefits, demonstration of the latter benefits is not required. As such, additional costs for this program can be defined as costs associated with the programs and activities that are additional to the existing course of action and activities funded by other sources. The key to additional cost reasoning in this program area should focus on the catalytic and complementary role of the SCCF funding to existing development funding.

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<sup>3</sup> Also see SCCF programs for technology transfer and sectoral mitigation.