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Financial mechanism (Convention)

Third review of the financial mechanism

Synthesis report on the financial mechanism

Note by the secretariat*

Summary

This document is a synthesis of information contained in submissions by Parties, the Third Overall Performance Study of the Global Environment Facility (OPS 3), and other Global Environment Facility (GEF) documents, with regard to GEF's activities as an operating entity of the financial mechanism of the Convention. It contains background information on reviews of the financial mechanism by the Conference of the Parties (COP), syntheses of GEF activities relating to recommendations of the second review of the financial mechanism, activities relating to guidance by the COP (including on national communications, capacity-building, public awareness and outreach, development and transfer of technologies, adaptation, Article 4.8(h) of the Convention and mitigation), information and data on the GEF's climate change portfolio, including its Trust Fund, the Least Developed Countries Fund and the Special Climate Change Fund, and an overview of GEF funding to climate change. The paper also provides an overview of the main findings of OPS 3 with regard to the climate change portfolio and highlights some additional issues for consideration.

* This document was submitted late because consultations with stakeholders took longer than expected.

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I. Introduction

A. Mandate

1. The Conference of the Parties (COP), by its decision 3/CP.4, decided to review the financial mechanism every four years, in accordance with Article 11, paragraph 4, of the Convention. By its decision 5/CP.8, the COP requested the Subsidiary Body for Implementation (SBI) to initiate the third review of the financial mechanism at its twenty-first session (SBI 21) in accordance with the guidelines annexed to decision 3/CP.4, or as they may be subsequently amended, and to take appropriate measures and report on the outcome to the COP at its twelfth session.
2. The SBI, at its twenty-first session, invited Parties and intergovernmental organizations to submit to the secretariat, by 15 October 2005, information on their experiences regarding the effectiveness of the financial mechanism. The secretariat received four submissions from Parties (FCCC/SBI/2006/MISC.9) and three submissions from intergovernmental organizations (FCCC/SBI/2006/MISC.3).
3. In order to perform the requested review, the SBI, at its twenty-first session, also requested the secretariat to prepare this synthesis report on the financial mechanism for consideration at SBI 24. The SBI requested that the report be based on submissions received, the Third Overall Performance Study of the Global Environment Facility (OPS 3)¹ and other Global Environment Facility (GEF) documents, including relevant GEF Council documents (FCCC/SBI/2004/19, para. 54).

B. Scope of the note

4. This report was prepared on the basis of submissions received, guidance by the COP to the GEF, OPS 3, annual reports from the GEF to the COP, GEF management's responses to reviews, GEF Council documents, additional GEF monitoring and evaluation reports, information provided by the GEF secretariat, and other relevant GEF and UNFCCC documentation. All documents referred to are available on either the UNFCCC website (www.unfccc.int) or the GEF website (www.thegef.org).
5. The document attempts to first summarize information about GEF activities relating to guidance by the COP, it then provides an overview of the GEF portfolio and funding, and finally provides a summary of the findings of OPS 3 with regard to the GEF's activities on climate change and highlights some additional issues for consideration.

II. Background

6. The GEF was initially designated to be the international entity entrusted with the operation of the financial mechanism, referred to in Article 11 of the Convention, on an interim basis (decision 9/CP.1). A memorandum of understanding (MOU) was concluded in 1996 between the COP and the Council of the GEF (decision 12/CP.2).
7. By its decision 3/CP.4, the COP, having completed a first review of the financial mechanism, decided to grant the GEF its status on an ongoing basis, subject to review every four years (guidelines for the review of the financial mechanism are contained in the annex to decision 3/CP.4).

¹ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005.

8. After the second review of the financial mechanism, Parties noted that the GEF effectively performed its role as an entity operating the financial mechanism and invited the GEF (decision 5/CP.8):

- (a) To review, in cooperation with the implementing and executing agencies as well as national focal points, its project cycle, with a view to making it simpler and more efficient, taking into account the lessons learned and the findings of the GEF Monitoring and Evaluation Unit;
- (b) To continue its efforts to increase the administrative efficiency and cost-effectiveness of its operations in line with the recommendations of the Second Overall Performance Study of the GEF (OPS 2)² and the Beijing Declaration;³
- (c) To continue to make the concept of agreed incremental costs and global benefits more understandable, recognizing that the process for determining incremental costs should be transparent, flexible and pragmatic, consistent with the Beijing Declaration;
- (d) To strengthen efforts to promote consistency of GEF activities with national priorities and to integrate them into national planning frameworks, such as national sustainable development strategies and poverty reduction strategies.

9. The second review also requested the GEF to report on its responses to the second review of the financial mechanism and to a recommendation in OPS 2 that a dialogue be initiated in order to implement more effectively the guidance provided by the COP to the GEF.

10. The second review further requested the UNFCCC secretariat to prepare, for consideration at SBI 20, a report on the determination of funding necessary and available for the implementation of the Convention. Parties, having considered the report,⁴ agreed in decision 9/CP.10 that this report should constitute an input of the COP to the fourth replenishment negotiations of the GEF Trust Fund.

11. Parties, in decision 9/CP.10, urged the GEF Council to ensure that adequate funding is available to enable developing countries to meet their commitments under the Convention, taking into account Article 4, paragraph 7, as well as Article 11, paragraph 5, of the Convention, the latter of which states that developed country Parties may provide, and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels.

12. Decision 9/CP.10 further requested the secretariat to compile information relevant to address future investment needs of developing countries for the purposes of fulfilling their commitments under the Convention. A report was prepared for consideration at SBI 23.⁵

13. At SBI 23, Parties agreed⁶ to use the two reports (mentioned in paragraphs 10 and 12 above) as input to the consideration by the SBI of the third review of the financial mechanism.

² "The first decade of the GEF – Second Overall Performance Study", GEF, January 2002.

³ "Beijing declaration of the second GEF Assembly", 18 October, 2002.

⁴ FCCC/SBI/2004/18.

⁵ FCCC/SBI/2005/INF.7.

⁶ FCCC/SBI/2005/23, paragraphs 56 and 57.

III. Activities in response to guidance to the financial mechanism

14. The COP has provided general guidance with regards to operation of the financial mechanism. It has also provided specific guidance in the following areas:

- (a) Support to national communications of Parties not included in Annex I to the Convention (non-Annex I Parties)
- (b) Capacity-building
- (c) Public awareness and outreach (Article 6 activities)
- (d) Development and transfer of technologies
- (e) Support to adaptation
- (f) Support to activities referred to in Article 4.8(h) of the Convention
- (g) Support to mitigation.

15. The GEF has responded to COP guidance through the climate change focal area⁷ of the GEF Trust Fund (in support of enabling activities, operational programmes relating to mitigation and the Strategic Priority on Adaptation), the Special Climate Change Fund (SCCF) and Least Developed Countries Fund (LDCF).

A. Recommendations from the second review of the financial mechanism

1. Project cycle

16. **COP guidance:** The COP, by its decisions 2/CP.4, 6/CP.7 and 5/CP.8, invited the GEF to streamline its project cycle with a view to making project preparation simpler, less prescriptive, more transparent and country-driven, and to expedite disbursement of funds to projects. The COP also requested (decision 5/CP.8) the GEF to review its project cycle, in cooperation with its implementing and executing agencies and national focal points, with a view to making it simpler and more efficient, taking into account lessons learned and the findings of the GEF Monitoring and Evaluation Unit.

17. **GEF activities:** The GEF has reported that it is further streamlining its project cycle to respond to requests by the COP and the GEF Council.⁸ The GEF project cycle was approved in 1995 and updated in October 2000. The GEF Council agreed to keep the project cycle under review, particularly in the light of the information and analysis that will be generated through monitoring and evaluation activities. The Council also stressed the need to apply project review procedures flexibly, recognizing the differences that may exist among specific projects, focal areas and regions, and to reflect any changes and additional policies that have been approved by the Council in future project cycle updates.⁹ The update of the GEF project cycle in October 2000 included recommendations aimed at improving the GEF's responsiveness, achieving better on-the-ground results and enhancing project quality. Since then, the GEF Council has approved a number of other policies and procedures to further streamline the project cycle. These have included the adoption of expedited procedures for enabling activities and

⁷ The GEF's climate change programme is one of six focal areas managed by the entity, and is the second largest after its biodiversity focal area. Most of the GEF's climate change activities are financed by a trust fund (GEF Trust Fund). The LDCF and SCCF were established by decision 7/CP.7 and are managed by the GEF.

⁸ FCCC/CP/2004/6.

⁹ See "Driving for results in the GEF: Streamlining and balancing project cycle management", in GEF/C.16/5.

medium-sized projects and further delegation of authority to approve projects up to specified budget ceilings.

18. The GEF Council, at its November 2005 meeting, approved an updated action plan to respond to recommendations for improving GEF's performance.¹⁰ The project cycle was reviewed with a view to making it simpler and more efficient, taking into account lessons learned and monitoring and evaluation findings. The independent GEF Evaluation Office is undertaking a further review of the GEF project cycle with a view to submitting proposals to the GEF Council at its meeting in December 2006.

19. The GEF is currently finalizing an operations manual to provide Parties with basic information about the mission of the GEF and its policies and procedures. Part I of the manual gives the background of the GEF structure, including the principles, strategies and policies that guide the implementation of projects. Part II describes in detail the processes and procedures followed in undertaking projects, as well as the approval process and documentation needed in each stage of the project cycle.¹¹

20. **Views expressed in submissions:**¹² A number of Parties continue to raise concerns about the length of the GEF project cycle and the long periods between project approval and funding disbursement. There is a renewed call for the project cycle to be timely and flexible. One Party stressed, however, that the GEF applies expedited procedures to many projects with a budget size under a certain threshold, and projects with budgets above the relevant threshold may undergo a longer procedure. The Party said it is up to each applicant Party to choose an expedited procedure or the normal procedure.

21. Some Parties also highlighted that:

- (a) Effort should be made to develop better methodologies for identifying funding priorities and selecting projects systematically, emphasizing local needs and capacity;
- (b) Implemented projects should be tracked more closely to identify successes and failures, to facilitate decision-making and appropriate response measures. Information flow between recipient countries and the GEF needs to be improved.

22. One intergovernmental organization suggested that improvements could be made if executing agencies were to have direct access to funding from the GEF instead of having to access funds through implementing agencies. It suggested that direct access would improve transparency of the decision-making process, the adequacy, predictability and timely disbursement of funds, the efficiency of the project cycle, and the sustainability of projects.¹³

2. Administrative efficiency and cost-effectiveness

23. **COP guidance:** The COP, by its decision 5/CP.8, invited the GEF to continue its efforts to increase the administrative efficiency and cost-effectiveness of its operations in line with the recommendations of OPS 2 and the Beijing Declaration.

24. **GEF activities:** The GEF Council agreed to consider a new approach to business planning. The new strategic business plan should be a performance-based, three-year plan that includes priorities for action to maximize results and impacts on the ground and to fulfil the mission of the GEF to achieve global environmental benefits in its focal areas. It should provide an indicative financial planning framework, based on focal areas and programme priorities, that provides reasonable predictability for the

¹⁰ In GEF/C.25/12/Rev.2.

¹¹ FCCC/CP/2005/3, paragraphs 77–79.

¹² When referring to submissions in this document, these are those made by Parties as referred to in paragraph 2 above, unless otherwise specified.

¹³ FCCC/SBI/2006/MISC.3.

involvement of the GEF in the medium term, linked to indicators of strategic relevance, programmatic consistency and expected outcomes. A four-year strategic business plan for the GEF will be proposed to the GEF Council once replenishment negotiations are completed.¹⁴

25. **Views expressed in submissions:** One Party stressed that the GEF has efficiently operated its funds in a cost-effective manner. It highlighted that the physical proximity of the GEF to the World Bank (the GEF's Trustee) may have reduced the cost of obtaining technical advice and management know-how to operationalize the GEF's funds.

3. Consistency of GEF activities with national priorities

26. **COP guidance:** The COP, by its decision 5/CP.8, invited the GEF to strengthen efforts to promote consistency of GEF activities with national priorities and to integrate them into national planning frameworks, such as national sustainable development strategies and poverty reduction strategies.

27. **GEF activities:** The main initiative relating to identification of national priorities has been the GEF's support for capacity-building through National Capacity Self-Assessments for Global Environmental Management (NCSAs). By September 2005, 153 countries were engaged in this programme, preparing to identify and prioritize their capacity needs, based on their national circumstances, existing strengths and gaps. The NCSAs aim to facilitate an inclusive, comprehensive review and assessment of the participating country's capacity – strengths and needs – to manage global and national environmental issues, including climate change. The NCSAs action plan is expected to outline priority strategies and actions for developing capacities to address the priority issues identified.¹⁵

28. The action plan to respond to recommendations for improving GEF's performance (see paragraph 18) also describes proposed actions relating to improvement of country based performance, increased country participation and the development of country-level indicators, including country ownership, sustainability and public involvement.

29. In May 2003, the GEF Council approved a National Dialogue Initiative to promote and support implementing agencies' efforts to mainstream GEF activities into national planning frameworks, such as national sustainable development strategies and poverty reduction strategies. Country Dialogue Workshops have been held in 14 countries to strengthen country ownership and involvement in GEF co-financed activities through a multiple stakeholder dialogue process.¹⁶

30. A Country Support Program for Focal Points, to be implemented by the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), is being developed to strengthen the capacity of GEF focal points to support GEF programmes in their countries and constituencies. Activities include training, outreach and information sharing, and strengthening country-level coordination to promote country ownership of GEF-financed activities.¹⁷

31. Subregional meetings are planned for 2006 to update all countries on GEF policies and procedures, including the GEF's Resource Allocation Framework (RAF).¹⁸

32. According to OPS 3, activities such as national communications and the NCSAs help countries identify national priorities, but these priorities, GEF priorities and the projects actually developed, are

¹⁴ GEF/C.25/12/rev.2, page 8.

¹⁵ FCCC/CP/2005/3, paragraph 53.

¹⁶ GEF/C.25/12/rev.2, page 5.

¹⁷ See GEF/C.25/9.

¹⁸ GEF/C.25/12/rev.2, page 5.

not always aligned. OPS 3 recommended that the GEF consider preparing country strategies to identify sectoral and project priorities. In particular, OPS 3 suggested that the process of assisting non-Annex I Parties in preparing their second national communications be considered a useful input in developing such strategies.¹⁹

33. **Views expressed in submissions:** Some Parties stressed that GEF projects must be country-driven and implementing and executing agencies must design and implement projects that address national concerns and priorities. Primary responsibility for country-level coordination should remain with the host country.

4. Incremental costs

34. **COP guidance:** One recommendation from the second review of the financial mechanism (decision 5/CP.8) was that the GEF continue to make the concept of agreed incremental costs and global benefits more understandable, recognizing that the process for determining incremental costs should be transparent, flexible and pragmatic, consistent with the Beijing Declaration.

35. **GEF activities:** The operations manual (referred to in paragraph 19 above) containing updated information on the GEF project cycle is meant to help project developers understand the concept and application of incremental costs.

36. The GEF Evaluation Office is conducting an evaluation in 2006 of how incremental costs have been applied in GEF projects. The evaluation will build on findings from existing programme studies and will draw on expertise on methodological issues from within and outside the GEF. The finished evaluation will provide feedback to the GEF Council in its future decision-making and to the GEF secretariat, implementing agencies and project proponents as they work to clarify guidelines and make the process of calculating incremental cost more transparent.²⁰

37. **Views expressed in submissions:** One Party supported the principle of the agreed incremental costs as central to the operation of the GEF Trust Fund, whereas some Parties stressed that it should not apply to projects relating to adaptation to the impacts of climate change, as adaptation activities do not fit the GEF “global benefit” benchmark.

5. Response to the recommendations of OPS 2

38. **COP guidance:** The COP, by its decision 5/CP.8, requested the GEF to report at COP 9 on progress in the implementation of GEF’s plan of action developed in response to recommendations in OPS 2.

39. **GEF activities:** The GEF reported at COP 9²¹ that the GEF Council will keep under annual review an action plan describing steps to respond to recommendations.²² The action plan includes actions that respond to COP guidance relating to capacity-building, strategic planning, streamlining the project cycle, incremental costs, transfer of technology and the private sector. As mentioned in paragraph 18 above, the GEF Council approved an action plan to respond to recommendations for improving GEF’s performance that should be kept under ongoing review.

¹⁹ “OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version”, GEF, June 2005, page 31.

²⁰ See the “Monitoring and Evaluation” section of the GEF website (www.thegef.org).

²¹ FCCC/CP/2003/3, paragraph 15.

²² For more information see “Action Plan to respond to the Recommendations of the Second GEF Assembly, the Policy Recommendations of the Third Replenishment, the Second Overall Performance Study of the GEF and the World Summit on Sustainable Development”, in GEF/C.21/Inf.4.

40. OPS 2 stressed, inter alia, the importance of replication, private sector involvement, coordination of GEF projects with national strategies and needs, and of fully utilizing the potential for influencing policy. OPS 2 recommended that the climate change portfolio facilitate enabling environments for market transformation and promote productive uses of energy in rural economies. It also pointed out that greater emphasis should be given to the potential for GEF to play a catalytic role. OPS 2 stressed that the GEF should demonstrate a shift from an “approval culture” to a “culture of quality and results”. In response to OPS 2 recommendations and in the context of discussions on the third replenishment of the GEF Trust Fund (GEF 3),²³ “strategic priorities” were approved by the GEF Council and were applied to the GEF 3 phase 2003–2006.²⁴

41. **Views expressed by Parties in submissions:** Some Parties stressed that OPS 3 reveals that the recommendation in OPS 2 that the GEF pursue a more focused programme in climate change does not appear to have been fully achieved during GEF 3.

6. Collaboration to implement COP guidance more effectively

42. **COP guidance:** The COP, by its decision 5/CP.8, requested the GEF secretariat, in consultation with the UNFCCC secretariat, to initiate a dialogue in order to implement more effectively the guidance provided by the COP to the GEF, drawing upon the experience gained and lessons learned from the projects and programmes funded by the GEF, and to explore opportunities for streamlining guidance, and to report on the outcome of this dialogue in its report to the COP at its tenth session.

43. **GEF activities:** A process of closer consultations was initiated between the GEF secretariat and the UNFCCC secretariat to strengthen collaboration and to renew regular communication and information exchange. This process aims to facilitate greater coherence between the guidance of the COP and GEF assistance. A number of activities have benefited from this cooperation.²⁵

44. The GEF secretariat and the UNFCCC secretariat collaborate through bilateral meetings, joint retreats, participation of representatives in working groups and task forces, and frequent communication.²⁶ Collaboration has taken place mainly on issues relating to national communications, strategic priorities on adaptation, technology transfer, capacity-building, the SCCF and the LDCF.

45. OPS 3 recommended that “robust, collaborative, and regular two-way communications between the GEF secretariat and the Convention secretariats should be further fostered to enable dialogue on priority setting, streamlining of strategies, and institutional capacity sharing”.²⁷

B. Response to guidance in specific areas

1. National communications

46. **COP guidance:** The COP, by its decision 11/CP.1, requested that the agreed full costs of activities required under Article 12, paragraph 1, of the Convention (national communications) be met by the operating entity or entities of the financial mechanism.

47. Guidelines for national communications from non-Annex I Parties were initially set out in the annex to decision 10/CP.2. Decision 11/CP.2 stipulated that these guidelines shall form the basis for the

²³ “Summary of negotiations on the third replenishment of the GEF trust fund”, in GEF/C.20/4.

²⁴ A list of six strategic priorities is available in the “GEF Business Plan FY04–06”, in GEF/C.21/9. In addition to these priorities, the GEF Council agreed in 2003 on a Strategic Priority for Adaptation – “Piloting and Operational Approach to Adaptation”.

²⁵ FCCC/CP/2003/3, paragraph 17.

²⁶ FCCC/CP/2004/6, paragraph 59.

²⁷ “Draft Third Overall Performance Study”, in GEF/ME/C.25/4.

funding of communications from non-Annex I Parties and requested the GEF to expedite the approval and the disbursement of financial resources to meet the agreed full costs for preparation of national communications.

48. The COP, by its decision 2/CP.4, subsequently requested the GEF to provide funding to developing countries to meet the agreed full costs of preparing initial and subsequent national communications by maintaining and enhancing relevant national capacity. Decisions 2/CP.7 and 6/CP.7 further stressed the need for funding capacity-building activities relating to the preparation of national communications.

49. At COP 8, new guidelines were adopted for the preparation of second and, where appropriate, third national communications of non-Annex I Parties (decision 17/CP.8, annex). Decision 6/CP.8 requested the GEF, as an operating entity of the financial mechanism, to provide financial resources at an appropriate level to cover the requirements of these guidelines, in an expedited manner and on an agreed full-cost basis.

50. The COP, by its decision 4/CP.9, requested the GEF to closely monitor the performance of its global project to support the preparation of national communications²⁸ and to provide financing in a timely manner for the preparation of national communications by non-Annex I Parties whose project activities are not covered by the global project.

51. The COP, by its decision 8/CP.11, decided that:

- (a) Non-Annex I Parties that have submitted their national communications should apply for the financing of their subsequent national communications at any time between three to five years of the initial disbursement of financial resources for the actual preparation of their previous national communications, except for those Parties that had this initial disbursement for the previous national communication more than five years ago, which should apply before 2006; this applies to the financing of second and, where appropriate, third national communications;
- (b) Non-Annex I Parties shall make all efforts to submit their second and, where appropriate, third national communication, within four years of the initial disbursement of financial resources for the actual preparation of the national communication, in accordance with Article 4, paragraph 3, of the Convention, under the expedited procedures or standard approved procedures, on an agreed full-cost basis;
- (c) Parties, if necessary and based on their national circumstances, may use an extension of up to one year for submission, after having informed the secretariat;
- (d) Any extensions shall not imply additional financial resources from the GEF;
- (e) Parties that are least developed countries may submit their second national communication at their discretion.

52. **GEF activities:** National communications are funded through enabling activities.²⁹ The funding of most of the initial national communications was disbursed according to operational guidelines for expedited financing of initial national communications from non-Annex I Parties (February 1997).³⁰ A total of 132 non-Annex I Parties received assistance in the preparation of their initial national communications. Of the resulting communications, 126 have been submitted to the COP (out of 130

²⁸ National Communications Support Programme, see paragraph 57.

²⁹ See section IV.C.1 on the GEF Trust Fund and paragraphs 134 and 135.

³⁰ Following decisions 6/CP.8 and 17/CP.8, these guidelines are no longer valid for obtaining GEF funding.

submissions so far). Another two second national communications (out of three submitted so far) were assisted by the GEF and submitted to the COP, following these operational guidelines.

53. In response to decision 2/CP.4, the GEF Council approved in October 1999 operational guidelines for expedited financing for interim measures for capacity-building in priority areas (called top-up activities).³¹ These guidelines contained provisions for Parties to maintain and enhance national capacities to prepare national communications.

54. In response to a mandate given at COP 8, in November 2003 the GEF Council approved new operational procedures for the expedited financing of national communications from non-Annex Parties.³² To further expedite the process, the GEF decentralized project approval of enabling activities to the level of implementing agency and released the funds to UNDP and UNEP. Funding for second and subsequent national communications was approved and is currently being managed by UNDP and UNEP.

55. Parties may choose between using these expedited procedures or submitting projects through the normal GEF project cycle to avail of agreed full-cost financing.

56. Since the approval of these new procedures, most of developing countries have received funds to conduct self-assessment exercises as a first step towards preparing project proposals for national communications.³³

57. The second phase of the National Communication Support Programme (NCSP) is a GEF funded six-year (2005-2010) technical assistance programme established as part of the financing of national communications. The NCSP was launched in June 2005, is jointly managed by the GEF, UNDP and UNEP through an advisory committee chaired by the GEF secretariat, and is implemented by UNDP. Its objective is to enhance the knowledge and skill of national experts through targeted technical backstopping, including in-depth and subregion-specific workshops and training activities, and the development of methodologies and tools as requested by non-Annex I Parties. The NCSP also seeks to sustain capacity-building efforts through knowledge networks, sharing of best practices and review of lessons learned, and it attempts to promote the incorporation of climate change into national development plans. The NSCP aims to work in a complementary manner with relevant global and regional capacity-building initiatives and is collaborating with a range of ongoing regional projects.³⁴

58. The NCSP is represented on the Consultative Group of Experts on National Communications from Parties not included in Annex I to the Convention (CGE). The Chair of the CGE also participates in NCSP Advisory Committee meetings in order to ensure full coordination of activities between the NCSP and the CGE.

59. Following decision 8/CP.11, the GEF and its implementing agencies are currently defining, together with host countries, the dates of disbursement of funds for national communications.

60. As highlighted in paragraph 32 above, OPS 3 concluded that whereas assistance for initial national communications has tended to focus on helping countries meet their reporting obligations under the UNFCCC and has generally not resulted in projects that can be taken forward through the GEF, the second national communications represent an important opportunity for countries to develop a national strategy that includes consideration of mitigation and adaptation elements. This should be taken into account by the GEF in its efforts to identify sectoral and project priorities relating to climate change.

³¹ Operational guidelines for expedited financing for (interim) measures for capacity-building in priority areas, October 1999. See the Documents/Enabling Activities section of the GEF website (www.thegef.org).

³² GEF/C.22/Inf.16.

³³ FCCC/CP/2005/3, paragraph 33.

³⁴ See ncsp.undp.org.

61. In response to requests by Parties, the GEF has funded, where appropriate, development of emission factors with the aim of improving the quality of greenhouse gas (GHG) inventories.

62. **Views expressed by Parties in submissions:** A lack of capacity, financial resources and good quality data were frequently reported in the national communications of non-Annex I Parties. In the preparation of national GHG inventories, the needs expressed related to scope and quality of national activity data, relevant emission and conversion factors, and institutional strengthening, including the establishment of databases and use of modelling. On vulnerability assessments and identification of adaptation options, the needs expressed included the building and upgrading of research capacity, and data collection and analysis. For most Parties, the need to improve the vulnerability assessments already carried out was considered essential for identification and effective implementation of adaptation options.³⁵

63. One Party stressed the need to finance the reporting of specific needs and concerns arising from the impact of the implementation of response measures.

64. Another Party stressed the need for the financing of second and third national communications to be more flexible given that some national expertise and capacity was lost between the preparations of initial and second national communications.

2. Capacity-building

65. **COP guidance:** Guidance has always stressed the need to build capacity of developing countries to implement the Convention and cope with climate change. Guidance on capacity-building evolved from focus on capacity to prepare national communications (decisions 1/CP.11 and 11/CP.2) to more detailed guidance relating to other areas, such as systematic observation, technology transfer (decision 2/CP.4) and reinforcement of national focal points and regional networks (decision 5/CP.10).

66. By its decisions 10/CP.5 and 11/CP.5, the COP launched a process to address capacity-building in an integrated manner, resulting in frameworks for capacity-building being agreed at COP 7 for developing countries and countries with economies in transition (EITs) (decisions 2/CP.7 and 3/CP.7, respectively). The GEF was requested to provide financial support to activities outlined in these frameworks and to report on them. These requests were reiterated in decisions 6/CP.8 and 4/CP.9.

67. A first comprehensive review of these frameworks was completed at COP 10, which identified key factors that should be taken into account to increase effectiveness (decisions 2/CP.10 and 3/CP.10). The GEF was requested to take into account these key factors when supporting capacity-building activities in developing countries. The COP also requested the secretariat to disseminate, in cooperation with the GEF and its implementing agencies, an information document on best practices and lessons learned in capacity-building projects and programmes and to publish it on the UNFCCC website. A second comprehensive review is planned in 2007 for EITs and in 2008 for developing countries.

68. At COP 10, the UNFCCC secretariat was also requested to prepare a synthesis report on the steps to be taken to monitor capacity-building activities in developing countries (pursuant to decision 2/CP.7). The report should suggest steps for monitoring that would contribute to the second comprehensive review of the capacity-building framework for developing countries in 2008. The monitoring of this framework will be designed taking into consideration the work of the GEF and its implementing agencies on performance indicators for the climate change focal area, and take into account the GEF monitoring and evaluation work in general.

³⁵ FCCC/SBI/2004/18.

69. **GEF activities:** The following items describe GEF activities relating to capacity-building.
70. Capacity-building for climate change activities: The GEF reports that its main support for capacity-building in the area of climate change is through its projects supporting mitigation and adaptation.³⁶
71. In addition, stand-alone capacity-building relating to climate change has been supported through “top-up” capacity-building activities for national communications (see paragraph 53). According to the guidelines for such activities, the GEF provides approximately USD 100,000 for enabling activities, in addition to the funding for national communications, following an expedited approval and disbursement procedure. A Party can select, from a list of activities, the activities to which it wishes to give priority. The list includes technology needs assessment, participation in systematic observation networks, improvement of emission factors, maintenance and enhancement of national capacities to prepare national communications, public awareness and education, and access to information.
72. Global Support Program for Capacity Building: The GEF has reported that capacity-building has always been a critical element of GEF climate change projects and more generally in almost all GEF activities. A review undertaken by the GEF implementing agencies to assess the role of capacity-building in GEF projects found that GEF support for capacity-building activities in all its focal areas exceeded USD 1.46 billion as of June 2002.³⁷
73. In October 2003, the GEF Council approved the Strategic Approach to Enhance Capacity Building, which includes four components: NCSAs, enhanced attention to capacity-building in regular GEF projects, targeted capacity-building within focal areas, and cross-cutting capacity-building, including country programmes for least developed countries (LDCs) and small island developing States (SIDS).³⁸
74. As referred to in paragraph 27 above, the NCSAs (which apply to three GEF focal areas and thus respond in general to guidance from the COP) are tools to assist countries analyse national priorities and identify how best to mobilize and allocate resources to implement the Convention. In February 2005, the GEF Council approved a Global Support Program that is managed jointly by UNDP and UNEP to provide technical backstopping to countries and to ensure timely completion of the NCSAs and perform follow-up. According to the GEF, the NCSAs action plan is also expected to outline priority strategies and actions to, among other things, respond to decisions, 2/CP.7 and 2/CP.10.³⁹
75. A programme in follow-up to the NCSAs has been initiated by the GEF to consider financing capacity-building projects that address national priority capacity needs identified in the NCSAs. The projects need to clearly demonstrate country ownership and can either be focal area specific or based on synergy with other relevant environmental conventions. Such cross-cutting capacity-building projects will use the GEF medium-sized project cycle with funding not exceeding the level provided for expedited enabling activities. The activities considered are likely to be those that miss support through the main GEF project portfolio or cannot be included in GEF projects that address focal area strategic priorities. Given the enabling nature of capacity-building activities, where the baseline cost to be met from other resources might be nothing, activities will be funded on an agreed full-cost basis.⁴⁰

³⁶ FCCC/CP/2005/3, paragraph 53.

³⁷ FCCC/CP/2005/3, paragraph 50.

³⁸ See “Progress on the implementation of the GEF strategic approach to capacity development”, in GEF/C.27/Inf.12.

³⁹ FCCC/CP/2005/3, paragraph 53.

⁴⁰ FCCC/CP/2005/3, paragraphs 54–56.

76. **Indicators:** The GEF is developing targets and indicators for measuring the results and impacts of capacity-building activities. Analytical work necessary to propose indicators is being conducted to allow effective benchmarking and assessment of capacity-building activities supported by the GEF, in collaboration with the monitoring and evaluation units of the GEF, UNDP, UNEP and the World Bank. The GEF Evaluation Office is planning an evaluation of GEF capacity-building activities in 2007.⁴¹

77. **GEF national focal points:** As mentioned in paragraph 30 above, the Country Support Programme for Focal Points is being developed to strengthen the capacity of GEF focal points to fulfil their mandates for supporting GEF programmes in their countries and constituencies.

78. **Views expressed in submissions:** Some Parties are of the view that the capacity of operational focal points needs to be enhanced to improve project processing and to better integrate GEF programmes into national development policies. Additional support to national focal points needs to be provided, including extensive training to develop a better understanding of GEF operations and to increase capacity to access and utilize funds.

3. Article 6 to the Convention

79. **COP guidance:** The COP's guidance to the GEF on Article 6 is contained in decisions 11/CP.1, 2/CP.4, 6/CP.7, 6/CP.8 and 4/CP.9. The GEF should continue to provide funding to developing country Parties to develop, strengthen and/or improve national activities for public awareness and education on climate change and response measures; to undertake more in-depth public awareness and education activities in the interest of community involvement and participation in climate change issues; and to support the implementation of the work programme on Article 6 of the Convention contained in the annex to decision 11/CP.8.

80. Additional guidance to the GEF is provided in decision 8/CP.10, in which the GEF is urged to continue its work in improving access to, and visibility of, opportunities for funding Article 6 activities.

81. **GEF activities:** Public awareness and outreach activities have so far been supported through regular GEF projects as appropriate, under enabling activities in the context of preparation of national communications and through "top-up" funding to support capacity-building (see paragraph 53).

82. In its report to the COP at its eighth session, the GEF stressed that public awareness and education and community involvement and participation were very important elements of the GEF's support to capacity-building.⁴² In this respect, among the 111 enabling activity projects financed by the COP in the area of climate change, 106 projects had public awareness components, representing an average of 20 per cent of the total GEF financing for enabling activity projects.

83. In its report to the COP at its eleventh session, the GEF reported⁴³ its intention to consult with the UNFCCC secretariat and implementing agencies on the possibility of further supporting public awareness and education activities in response to guidance it received at COP 10.

84. Since the holding of regional workshops organized by the UNFCCC secretariat on Article 6 activities, the implementing agencies have been discussing with Parties about project ideas that enhance public awareness in a cost-effective manner. A global proposal from the civil society to advance public awareness on climate change is currently being considered by the GEF Council for funding. The COP will be kept informed of progress.

⁴¹ See the Monitoring and Evaluation section of the GEF website (www.thegef.org).

⁴² FCCC/CP/2002/4, paragraph 29.

⁴³ FCCC/CP/2005/3, paragraphs 74 and 75.

4. Development and transfer of technologies

85. **COP guidance:** In accordance with Article 4, paragraph 5, of the Convention, Parties included in Annex II to the Convention shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention.

86. The COP, by its decision 2/CP.4, requested the GEF to support capacity-building for non-Annex I Parties to carry out technology needs assessments.

87. The COP, by its decision 4/CP.7, adopted a framework for meaningful and effective actions to enhance the implementation of Article 4, paragraph 5, of the Convention. The GEF, as an operating entity of the financial mechanism, was requested to provide financial support for the implementation of this framework through its climate change focal area and the SCCF.

88. The SCCF, established by decision 7/CP.7, supports activities in adaptation, technology transfer, specified sectors (energy, transport, industry, agriculture, forestry and waste management) and economic diversification. The COP, in its decision 5/CP.9, identified priority areas from the framework (annex to decision 4/CP.7) to be supported by the SCCF:

- (a) Implementation of the results of technology needs assessments (TNAs);
- (b) Technology information;
- (c) Capacity-building for technology transfer;
- (d) Enabling environments.

89. **GEF activities:** In response to decision 2/CP.4, the GEF provided “top-up” funding (see paragraph 53) to 94 non-Annex I Parties to conduct TNAs. Some 23 TNA reports are already available and another two are expected to be completed by the end of 2006.

90. With regard to its support to the decision 4/CP.7 framework, the GEF has reported⁴⁴ on its experience in operating programmes and on progress in the development of a conceptual framework for technology transfer that builds on the work of the EGTT.

91. “One of the GEF’s major objectives has been to catalyze transfer of climate-friendly technology through its projects. [. . .] The GEF has supported projects in over 130 countries, seeking to develop and transform markets for more than two dozen technologies. GEF projects have actively supported assessments of the barriers that prevent local markets from using new mitigation technologies and practices and formulation of strategies to remove such barriers. [. . .] GEF interventions are designed to have lasting positive impact on technology transfer and diffusion in the target countries. [. . .] Technology transfer is promoted by providing information, creating an enabling environment by strengthening local technical knowledge and capacity, and financing and supporting the use of the actual technology.”⁴⁵

92. The conceptual framework mentioned in paragraph 90 was initiated following recommendations of the Climate Change Program Study 2004 (CCPS2004)⁴⁶ and OPS 3 and is aimed at future GEF activities developing local capacity for technology transfer and disseminating climate-friendly

⁴⁴ FCCC/CP/2005/3, paragraphs 39–48.

⁴⁵ FCCC/CP/2005/3, paragraphs 39–41.

⁴⁶ “Climate Change Program Study 2004”, Office of Monitoring and Evaluation, GEF, September 2004.

technologies in a manner consistent with the GEF principles of cost-effectiveness, sustainability, replicability and country-driven approach. The framework attempts to internalize the recommendations of the EGTT for capacity-building and creating enabling environments for technology transfer.⁴⁷

93. The GEF secretariat and UNDP have established a close working relationship with the EGTT and are contributing to the meetings and work of the group.

94. With regard to the SCCF, the GEF Council approved in November 2004 a proposed programme outlining plans to use SCCF resources. From the initially mobilized USD 34 million in pledges, USD 1 million is allocated to technology transfer.

5. Adaptation

95. **COP guidance:** Decision 11/CP.1 defined a stage approach for support to adaptation:

- (a) Stage I would address planning, including studies of possible impacts of climate change, to identify particularly vulnerable countries or regions and policy options for adaptation and appropriate capacity-building;
- (b) Stage II would address measures, including further capacity-building, which may be taken to prepare for adaptation, as envisaged in Article 4.1(e);
- (c) Stage III would address measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1(b) and Article 4.4.

96. The GEF was initially requested to meet the agreed full cost of Stage I activities in the context of its support for national communications. The GEF was subsequently given the mandate to fund and implement Stage II activities in particularly vulnerable countries and regions identified in Stage I (decision 2/CP.4). This request was reiterated in decision 6/CP.8 in the context of the support to non-Annex I Parties in preparing national communications following the new guidelines for national communications annexed to decision 17/CP.8.

97. Decisions 5/CP.7 and 6/CP.7 listed activities relating to vulnerability and adaptation to be funded by the GEF. The GEF was also requested by these decisions to provide financial resources to developing country Parties, in particular LDCs and SIDS, for developing and implementing, as appropriate, prioritized projects identified in national communications and was encouraged to improve its responsiveness to country needs.

98. The COP, by its decision 7/CP.7, also established two special funds under the Convention: the LDCF and SCCF. Both funds are operational and managed by the GEF.⁴⁸

99. The LDCF was created to support activities in LDCs. The central activity for LDCs is the preparation of national adaptation programmes of action (NAPAs). NAPA preparation is a bottom-up, country-driven process through which Parties identify their most urgent needs, and then create a prioritized list of adaptation projects and related priority activities, whose further delay could increase vulnerability, or lead to increased costs at a later stage. Further decisions from the COP (8/CP.8, 6/CP.9 and 3/CP.11) provided guidance on the operation of the LDCF. Decision 3/CP.11, in particular, emphasizes that the operation of the fund should be informed by a country-driven approach and should support the implementation of urgent and immediate activities identified in NAPAs. Full-cost funding should be provided to meet the additional costs of activities to adapt to the adverse effects of climate change as identified in NAPAs. The GEF was requested to develop a co-financing scale taking into

⁴⁷ FCCC/CP/2005/3, paragraph 47.

⁴⁸ Disbursements are discussed in section C below, and the status of funding levels is discussed in chapter IV.

account the circumstances of LDCs and the need for “flexible modalities” that ensure balanced access to resources.

100. Decision 5/CP.9 further provided that the SCCF should support the implementation of adaptation activities and listed what such activities could include.

101. The COP, by its decision 3/CP.9, noted that the GEF had established a new strategic priority in the climate change focal area “that will build upon and demonstrate linkages to activities in the other focal areas by expanding opportunities within those focal areas to demonstrate important adaptation response measures”. Decision 4/CP.9 requested the GEF to operationalize the GEF’s new strategic priority in the climate change focal area as soon as possible.

102. The COP, by its decisions 1/CP.10 and 8/CP.10, requested the GEF to report at subsequent sessions on how vulnerability and adaptation activities under decision 5/CP.7 have been supported, and on the barriers and obstacles to, and the opportunities for, implementation, through: the strategic priority “Piloting an Operational Approach to Adaptation”; the GEF’s small grants programme (SGP); efforts to address adaptation in the climate change focal area and mainstream adaptation into other focal areas of the GEF; the LDCF; and the SCCF. The GEF was requested to make further resources available to implement activities under decision 5/CP.7, and to “expand support for the elaboration of adaptation strategies as part of the national communication process in non-Annex I Parties”.

103. The COP, by its decision 5/CP.11, requested the GEF to assist non-Annex I Parties, in accordance with Article 12, paragraph 4, of the Convention and decision 11/CP.1, if requested, “in formulating and developing project proposals identified in their national communications when Parties are formulating their national programmes to address climate change issues”; and to report at COP 12 on progress.

104. **GEF activities:** Initially, most GEF Trust Fund resources for adaptation were provided to countries in the context of the preparation of national communications and for capacity-building for adaptation.⁴⁹ After COP 7, further funding was provided through projects under the GEF Trust Fund’s pilot programme Strategic Priority on Adaptation (SPA).

105. In addition to the GEF Trust Fund’s resources, funding is available from the LDCF and SCCF. These funds function under operational criteria that depart from the GEF Trust Fund’s global environmental benefits and incremental costs criteria.

106. Assistance through preparation of national communications: A share of the funding available under expedited procedures for preparation of national communications is available for assessing vulnerability and adaptation. For initial national communications a total of USD 350,000 per national communication was made available, from which a maximum of USD 130,000 was available for assessing both mitigation and vulnerability and adaptation under the GEF’s expedited procedures. The new UNFCCC guidelines for national communications (decision 17/CP.8, annex) contain expanded scope for vulnerability and adaptation assessments. For non-Annex I Parties, a ceiling of USD 150,000 (out of a total of USD 420,000 per national communication) is available, under expedited procedures, for assessing both mitigation and vulnerability and adaptation under GEF’s expedited procedures. Countries can allocate these resources according to their national priorities.

107. Strategic Priority on Adaptation:⁵⁰ Under the SPA, only projects that “build upon or incorporate a rigorous methodology to assess climate change vulnerability, identify adaptation measures and

⁴⁹ See “GEF Assistance to Address Adaptation”, 28 April 2004, in GEF/C.23/Inf.8. More than 130 non-Annex I Parties received financial support for initial national communications.

⁵⁰ See also section III.C.1. on the SPA project pipeline and section IV.A.1. on funding levels.

integrate them into policy planning, as well as generate global environmental benefits”⁵¹ are eligible. In developing an SPA portfolio, the GEF is supporting particularly vulnerable regions, sectors, geographic areas, ecosystems and communities.⁵² The selection of particularly vulnerable sectors is based on information contained in national communications, NAPAs, and other major national or regional studies. The SPA offers an opportunity to promote synergy between the Rio Conventions and multilateral environmental agreements in general. If the project’s focus is primarily on benefits in development sectors – such as health, agriculture, water or infrastructure – the proposed projects will have to access funding through the LDCF or SCCF instead.

108. Programming is detailed in “Operational Guidelines for the Strategic Priority ‘Piloting an Operational Approach to Adaptation’”.⁵³

109. The GEF has identified the following possible options for further support to adaptation, depending on the outcomes and recommendations flowing from an evaluation of the pilot phase of the SPA: a new operational programme designed to support adaptation under the GEF Trust Fund, including activities and objectives that complement but do not duplicate the LDCF and SCCF; future adaptation work mainstreamed into GEF focal area programming in the form of safeguard provisions; or GEF adaptation efforts redesigned to continue as a separate funding window under future GEF replenishments. Although these options are neither mutually exclusive nor exhaustive, it should be anticipated that adaptation to climate change will form a permanent part of future GEF programming following the completion of the SPA.⁵⁴

110. Special Climate Change Fund:⁵⁵ In November 2004, the GEF Council endorsed the GEF’s programming document for the SCCF⁵⁶ and approved it as an operational basis for funding activities under the SCCF. As per decision 7/CP.7, the document addresses adaptation, in accordance with paragraph 8 of decision 5/CP.7, and transfer of technologies, in accordance with decision 4/CP.7.⁵⁷ It introduced an approach to GEF support for adaptation that departs from the incremental cost and the generation of global benefits⁵⁸ approach. The programming document proposed an approach to calculating additional costs which would seek to quantify the costs imposed on a country by the impacts of climate change, and which would not include the expectation of demonstrating global environmental benefits. The programming paper also includes a “co-financing sliding proportional scale” that aims to facilitate and expedite the calculation of additional costs.

111. Least Developed Countries Fund:⁵⁹ Pursuant to the initial guidance from the COP, the GEF funded the full cost of the preparation of NAPAs. Following additional guidance in decision 3/CP.11, the GEF is consulting with the LDCs, donor countries, implementing agencies and others on how to move from NAPA preparation to implementation. An LDCF programming paper, now being prepared, will propose a streamlined modality to accelerate the GEF project cycle, an additional-costs approach,

⁵¹ “Operational Guidelines for the Strategic Priority ‘Piloting an Operational Approach to Adaptation’ (SPA)”, paragraph 22, in GEF/C.27/Inf.10.

⁵² <http://www.undp.org/gef/adaptation/funds/04c_i.htm>.

⁵³ GEF/C.27/Inf. 10.

⁵⁴ GEF/C.27/Inf.10, paragraph 39.

⁵⁵ See also section III.C.3. on the SCCF project pipeline and section IV.B. on funding levels.

⁵⁶ GEF/C.24/12.

⁵⁷ The two other areas stipulated for attention in decision 7/CP.7, paragraph 2 (c) (energy, transport, industry, agriculture, forestry and waste management) and (d) (activities to assist developing country Parties referred to under Article 4, paragraph 8 (h), in diversifying their economies, in accordance with decision 5/CP.7), were not covered as negotiations on these had not been concluded.

⁵⁸ Projects funded by the GEF are typically expected to produce global environmental benefits.

⁵⁹ See also section III.C.2. on the LDCF project pipeline and section IV.C. on funding levels.

which would seek to quantify the costs imposed on a country by the impacts of climate change, full-cost funding to be provided in those cases where impacts can be reasonably proven, and no expectation of demonstrating global environmental benefits.

112. **Views expressed in submissions:** One Party expressed the view that the SCCF and the LDCF have been successfully operationalized by the GEF, which has translated the spirit of COP decisions in clearly articulated programming papers. According to this Party, these programming papers have succeeded in assigning specific roles to these new funds so that they can serve objectives different from those of the GEF Trust Fund.

113. Some Parties stressed that LDC representation should be strengthened on the GEF Council in order to give voice to concerns from those Parties most vulnerable to the impacts of climate change.

6. Support to activities referred to in Article 4.8(h) of the Convention

114. **COP guidance:** In accordance with Article 4, paragraph 8 (h), of the Convention, “[. . .] Parties shall give full consideration to what actions are necessary under the Convention, including actions related to funding, insurance and the transfer of technology, to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and/or the impact of the implementation of response measures, especially on, among others, 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”.

115. As mentioned above, the SCCF was established by decision 7/CP.7 and is aimed at supporting activities in adaptation, technology transfer, specified sectors (energy, transport, industry, agriculture, forestry and waste management) and activities to assist developing country Parties referred to under Article 4, paragraph 8 (h), in diversifying their economies. Although further guidance on this fund has been provided by the COP with regard to adaptation and transfer of technologies (decision 5/CP.9), Parties have not yet agreed on detailed guidance with regard to economic diversification.

116. In its decision 5/CP.7, the COP also requested the GEF to support the activities listed in paragraphs 22–29 of that decision. Decision 8/CP.10 further invited the GEF to provide feedback, at COP 12, on activities undertaken in response to decision 5/CP.7, paragraphs 22–29, with a view to the COP adopting a decision on further action at its thirteenth session.

117. **GEF activities:** As referred to in paragraph 110 above, the GEF Council endorsed a programming paper for the SCCF. The paper, however, does not address two of the four subject areas stipulated in decision 7/CP.7 (paragraph 2 (c) and (d)), as negotiations on these had not been concluded.

118. The GEF is expected to include information on activities outlined under paragraphs 22 to 29 of decision 5/CP.7 in its report to COP 12.

119. **Views expressed in submissions:** One Party stressed that decision 5/CP.7 requires that the implementation of activities, including those to address the impacts of response measures, be supported through the GEF and the SCCF. It noted that the GEF should provide feedback to the COP on the status of support for the implementation of activities included in paragraphs 22–29 of decision 5/CP.7.

7. Mitigation

120. **COP guidance:** Decision 11/CP.1 provides that measures covered by Article 4, paragraph 1, of the Convention are eligible for funding through the financial mechanism in accordance with Article 4, paragraph 3. Such measures should be agreed between the developing country Party and the international entity or entities referred to in Article 11, paragraph 1, in accordance with Article 4, paragraph 3.

121. Further COP decisions (12/CP.2, 2/CP.4) provided guidance on the need to assist non-Annex I Parties with studies leading to the preparation of national programmes to address climate change that are compatible with national plans for sustainable development.

122. Parties also highlighted at COP 7 (decision 7/CP.7) that the SCCF should provide financial assistance to energy, transport, industry, agriculture, forestry and waste management. Although further guidance on this fund has been provided by the COP with regards to adaptation and transfer of technologies (decision 5/CP.9), Parties have not yet agreed on detailed guidance on these.

123. Decision 6/CP.7 called on the GEF to assist developing country Parties in developing and implementing, as appropriate, prioritized projects identified in their national communications. The COP, by its decision 5/CP.11, further requested the GEF, in accordance with Article 12, paragraph 4, and decision 11/CP.1, to assist non-Annex I Parties, if requested, “in formulating and developing project proposals identified in their national communications when Parties are formulating their national programmes to address climate change issues”, and to report at COP 12 on progress in this regard.

124. The COP, by its decision 5/CP.11, further requested the GEF to consider whether supporting carbon capture and storage technologies, in particular related capacity-building activities, would be consistent with its strategies and objectives, and, if so, how they could be incorporated in the GEF’s operational programmes.

125. **GEF activities:** Most of the activities supported by the GEF relate to mitigation of climate change.⁶⁰ These mitigation activities are mainly financed through the GEF operational programmes. They are described in the section below on the GEF Trust Fund.

126. The GEF is expected to report at COP 12 on its assistance to non-Annex I Parties in formulating and developing project proposals identified in national communications and on possibilities to support carbon capture and storage.

127. With regard to carbon capture and storage, OPS 3 noted that it might be appropriate for the GEF to undertake pilot carbon capture and sequestration projects given the substantial scope for demonstrating this technology in developing countries with large geological sequestration potential. It was further suggested that this is a key area for the GEF Scientific and Technical Advisory Panel to monitor.⁶¹

C. Climate change portfolio of the Global Environment Facility

1. GEF Trust Fund

128. The largest share of GEF climate change resources has been assigned to long-term mitigation projects. These were envisaged by the GEF to have “much greater impact because the projects would drive down costs, build capacity, and start to put in place the technologies that can ultimately avoid GHG emissions”.⁶² A key element of the GEF Trust Fund is its requirement that projects meet agreed incremental costs for delivering global environmental benefits. Climate change mitigation projects fall within four operating programmes (OP) approved by the GEF Council:

- (a) Removal of barriers to energy conservation and efficiency (OP5)
- (b) Promotion of the adoption of renewable energy by removing barriers and reducing implementation costs (OP6)

⁶⁰ See section C below on the GEF climate change portfolio.

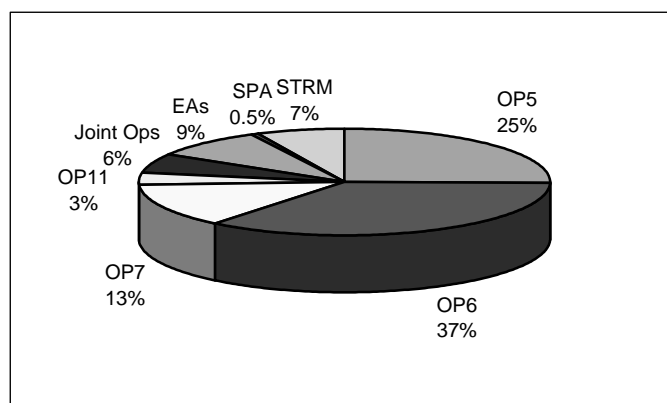
⁶¹ “OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version”, GEF, June 2005, page 32.

⁶² FCCC/CP/1995/4.

- (c) Reduction of the long-term costs of low-GHG-emitting energy technologies (OP7)
- (d) Promotion of environmentally sustainable transport (OP11).

129. A further programme, integrated ecosystem management (OP12), also encompasses climate change objectives, such as carbon sequestration. Most of the GEF climate change funds have been spent on OP5 and OP6 (figure 1). To date, a smaller proportion of the GEF's resources have been allocated to adaptation activities, through the SPA. (See chapter IV for information on levels of funding.)

Figure 1: Relative allocations between different GEF Trust Fund programmes



Source: GEF secretariat

Note: EAs = Enabling activities, SPA = Strategic Priority on Adaptation, STRM = short-term response measures, OP5 = energy efficiency, OP6 = renewable energy, OP7 = low-GHG-emitting energy technologies, OP11 = sustainable transport, Joint Ops = Joint operational programmes.

130. National communications from Parties provide the GEF with information on country priorities. The COP has also provided guidance on priorities relating to mitigation. GEF climate change performance reviews (e.g. 2004 Climate Change Program Study) have focused quite strongly on mitigation projects, as have the GEF overall performance reviews (e.g. OPS 2 and OPS 3, discussed in more detail below).

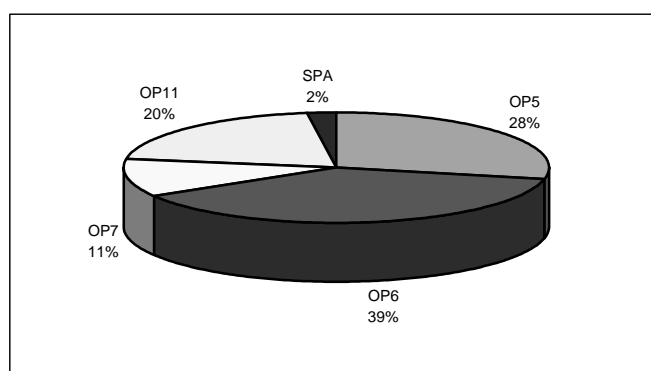
131. The analysis of project approvals in 2003–2005 reveals some trends. The largest number of projects has been in the renewable energy portfolio. Although fewer projects have been approved in energy efficiency, these projects have tended to be larger and hence the overall amount allocated for energy efficiency is only slightly less than that allocated for renewable energy. An almost equivalent amount has been allocated for a small number of large projects on solar thermal electricity, power production and fuel cells. Within the energy efficiency portfolio, projects have concentrated on energy efficient buildings, appliances and industry. A relatively new focus has been projects that aim to increase the efficiency of power plants. Within the renewable energy portfolio, there has been a marked shift away from photo-voltaic projects (although these have not entirely disappeared) and a greater emphasis on a range of resource and technology options, including biomass, hydro and wind. Although there are some grid-connected renewable energy projects, most of the portfolio is oriented towards rural energy services. There are fewer isolated, once-off rural interventions, and more emphasis on integrated, sustainable national programmes. The World Bank received 58 per cent of the allocation, UNDP 35 per cent and UNEP the rest.

132. Of the 16 full-sized projects approved in fiscal year 2006, nine are in OP6 (renewable energy), two in OP5 (energy efficiency), two in OP11 (sustainable transport) and three are SPAs (adaptation).

Renewable energy dominates the 2006 portfolio, comprising two thirds of allocations. These proportions could change as it expected that projects worth at least USD 250 million will still be approved in fiscal year 2006.

133. An analysis of the 2006–2007 GEF pipeline (see figure 2) reveals that renewable energy will continue to be the largest portfolio (in value), followed by energy efficiency and sustainable transport (a growing portfolio). There are some large projects in sustainable transport, fuel cells, improving the efficiency of power plants, energy efficient equipment, geothermal energy, one focusing on integrated gasification for combined cycle and a number of large-scale renewable energy programmes. There is a trend to more (and larger) regional projects across a number of countries.

Figure 2: Relative proportion of projects in GEF operating programme pipeline



Source: GEF secretariat

Note: EAs = Enabling activities, SPA = Strategic Priority on Adaptation, STRM = short-term response measures, OP5 = energy efficiency, OP6 = renewable energy, OP7 = low-GHG-emitting energy technologies, OP11 = sustainable transport, Joint Ops = Joint operational programmes.

134. **Enabling activities:** The GEF has provided financing to support 132 non-Annex I Parties in preparing their initial national communications. About 110 countries received, as of August 2005, assistance to undertake a stocktaking in preparation for their second national communications. The National Communication Support Program, phase II, is currently assisting 48 countries in preparing their second (initial or third where appropriate) national communications, and 24 more countries were expected to be added to that number by the end of June 2006.

135. Total funding for enabling activities (to the end of February 2006) amounted to USD 182 million.

136. **Small grants programme:** OPS 3 noted that the SGP, which operates across the different GEF focal areas, has been well received by recipient countries and increases the visibility of the GEF, a finding confirmed in the Third Independent Review of the GEF Small Grants Programme in 2003. It remains one of the most appreciated programmes of the GEF. Many recipient-country stakeholders, including government representatives and non-governmental organizations, as well as implementing agencies, noted how effectively the SGP was responding to country priorities at the local level. OPS 3 found that the flexibility of the SGP has allowed for innovative thinking and design of activities to meet country needs and capacities in SIDS and LDCs.

137. According to information provided by the GEF secretariat in April 2006, cumulative funding allocations for the SGP since 1992 have amounted to USD 222.2 million, excluding the allocation for the current year, which is an additional USD 60 million. The ratio of projects for climate change is

increasing, starting from 15 per cent in the 1990s to more than 20 per cent currently, and is expected to increase further in 2006. This excludes the recent allocation by the GEF of USD 5 million to the SGP for community adaptation projects.

138. **Strategic Priority on Adaptation:** According to information provided by the GEF secretariat, there are now 14 SPA projects, 8 approved and 6 in the pipeline.

2. Least Developed Countries Fund

139. According to information provided by the GEF secretariat, to date, 44 out of 48 eligible LDCs have been allocated funds to prepare their NAPAs, as well as for two global support programmes, for a funding total of USD 9.6 million.

3. Special Climate Change Fund

140. According to information provided by the GEF secretariat, one project has been approved for funding through the SCCF and seven projects are in the pipeline.

IV. Status of Global Environment Facility funding of climate change activities

141. Article 11.3(d) of the Convention calls for arrangements to determine in a predictable and identifiable manner the amount of funding necessary and available for the implementation of the Convention. In accordance with decision 11/CP.1, “in mobilizing funds, the operating entity or entities should provide all relevant information to developed country Parties and other Parties included in Annex II to the Convention, to assist them to take into full account the need for adequacy and predictability in the flow of funds. The entity or entities entrusted with the operation of the financial mechanism should take full account of the arrangements agreed with the Conference of the Parties, which, inter alia, shall include determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of the Convention, as provided for in Article 11.3(d) of the Convention”.

142. In accordance with the annex⁶³ to the MOU between the COP and the GEF (decision 12/CP.3), “in anticipation of a replenishment of the GEF, the COP will make an assessment of the amount of funds that are necessary to assist developing countries, in accordance with the guidance provided by the COP, in fulfilling their commitments under the Convention over the next GEF replenishment cycle, taking into account:

- (a) The information communicated to the COP under Article 12 of the Convention;
- (b) National programmes formulated under Article 4.1(b) of the Convention and progress made by Parties in the implementation of such national programmes and towards the achievement of the Convention’s objective;
- (c) Information communicated to the COP from the GEF on the number of eligible programmes and projects that were submitted to the GEF, the number that were approved for funding, and the number that were turned down owing to lack of resources;
- (d) Other sources of funding available for the implementation of the Convention.

143. The GEF replenishment negotiations should take into account the COP’s assessment.

⁶³ “Determination of funding necessary and available for the implementation of the Convention”, in FCCC/CP/1996/9.

144. In response to the mandate in decision 5/CP.8, the secretariat has prepared a report on the assessment of funding necessary to assist developing countries in fulfilling their commitments under the Convention.⁶⁴ Parties, after having considered this report, agreed in decision 9/CP.10 that this report should constitute an input of the COP to the fourth replenishment negotiations of the GEF Trust Fund.

145. As referred in paragraph 11 above, the COP, by its decision 9/CP.10, also urged the GEF Council to ensure that adequate funding is available to enable developing countries to meet their commitments under the Convention.

146. The COP, at its tenth session, took note of information provided on the current level of funding for GEF projects and noted with satisfaction important progress made in supporting the implementation of projects in the areas of renewable energy (OP6) and energy efficiency and energy conservation (OP5). It noted, however, that additional efforts are required to achieve similar progress in the areas of sustainable transport (OP11) and low-GHG-emitting energy technologies (OP7). The COP urged the GEF to place, in its future reports to the COP, more emphasis on the results and impacts of projects it has financed, drawing on existing GEF reports and information.⁶⁵

147. The COP, at the same session, also invited the GEF to ensure that it allocates adequate resources under the GEF Trust Fund to support the implementation of adaptation activities, consistent with COP guidance to the GEF.⁶⁶

A. GEF Trust Fund

1. Level of funding

148. Up to 28 February 2006, the GEF had allocated⁶⁷ a total of just more than USD 2 billion to climate change projects from the GEF Trust Fund. Further co-financing in excess of USD 10 billion has been leveraged for these GEF projects. The total GEF climate change funding allocations (including enabling activities⁶⁸) are shown below for the different replenishment periods (table 1).

Table 1: GEF Trust Fund allocations

GEF Phase	USD millions
Pilot phase	280.6
GEF I	507.0
GEF 2	667.2
GEF 3	600.7
Total	2055.5

Source: GEF secretariat.

2. Fourth replenishment

149. The report by the secretariat on assessment of funds⁶⁹ was forwarded for consideration by the GEF in discussions on the fourth replenishment of the GEF Trust Fund (GEF 4). Negotiation on GEF 4 have not been completed as of the writing of this paper.

⁶⁴ FCCC/SBI/2004/18.

⁶⁵ FCCC/CP/2004/10, annex III, paragraph 2.

⁶⁶ FCCC/CP/2004/10, annex III, paragraph 12.

⁶⁷ Not all of these funds have been fully disbursed as projects are in various stages of implementation.

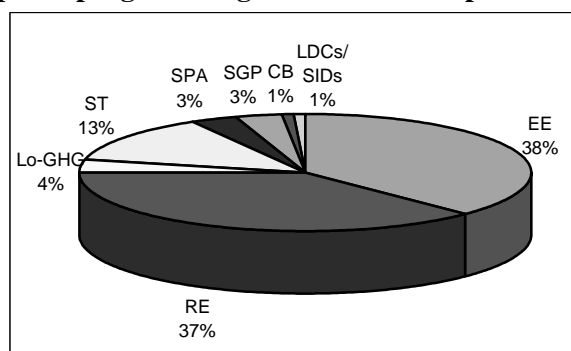
⁶⁸ Excludes project development facility (PDF) grants. A total of USD 14.7 million has been approved for PDF-Bs, for the information gathering necessary to complete full project proposals and the essential supporting documentation.

⁶⁹ FCCC/SBI/2004/18.

150. As part of discussions on GEF 4, the GEF secretariat has **clarified and further developed its mission, intervention strategies and programme priorities for the climate change focal area.**⁷⁰ Support activities will remain focused on enabling, mitigation and adaptation activities. Enabling activities to support national communications will remain a priority. The mission of the GEF in climate change mitigation has been clarified as being to “develop, and transform the markets for energy and mobility in developing countries so that over the long term, they will be able to grow and operate efficiently towards a less-carbon-intensive path”.⁷¹ Priorities will be defined through the GEF’s operational programmes and will focus on: OP5 – energy efficiency (including energy-efficient buildings and appliances, industrial energy efficiency and retro-fitting of power plants); OP6 – renewable energy (including grid-connected electricity and renewable energy for rural energy services); OP7 – low-GHG-emitting energy technologies, and OP11 – sustainable transport. The focus will be on intervention strategies for barrier removal and market transformation in the areas of policy, finance, business models, information and technology.⁷²

151. **The proposed programming for GEF 4 (2006–2010)** climate change activities amounts to between USD 906 million and USD 1,065 million, depending on the size of the GEF 4 replenishment. Most of the resources will still go to mitigation (see figure 3): energy efficiency, renewable energy, low-GHG-emitting technologies and sustainable transport. The balance will be allocated to the remainder of the SPA, the SGP, cross-cutting capacity-building activities and support to LDCs and SIDS.⁷³

Figure 3: Proposed programming for the fourth replenishment of the GEF



Source: GEF secretariat.

Note: SPA = pilot programme on Strategic Priority on Adaptation, BB = cross-cutting capacity-building activities, EE = energy efficiency, LDCs/SIDS = least developed countries/small island developing States, Lo-GHG = low-GHG-emitting energy technologies, SGP = small grants programme, RE = renewable energy.

152. With regard to the documents under negotiations for GEF 4, a revised climate change strategy and climate change programming framework⁷⁴ provides for a set of links between the GEF’s mission, its strategic approach, priorities, operational programmes and project areas. Work by the GEF secretariat, in consultation with the GEF Evaluation Office, is progressing on establishing consistent performance indicators that link in a logical way to the intervention strategies in the different operational areas. The

⁷⁰ For detailed information see “Working draft GEF climate change strategy”, in GEF/R.4/Inf.7 and “Revised programming document for GEF-4”, in GEF/R.4/31.

⁷¹ GEF/R.4/Inf.7, paragraph 20.

⁷² GEF/R.4/Inf.7.

⁷³ GEF/R.4/31.

⁷⁴ GEF/R.4/Inf.7.

revised programming framework for GEF 4 provides direct response to the recommendations of OPS 2 and OPS 3.

3. Resource Allocation Framework

153. A major element of the GEF 3 replenishment reform agenda was the establishment of a framework for allocation to countries based on global environmental priorities and performance. The COP, at its tenth session, took note of information provided by the GEF on the progress made in developing a resource allocation framework and encouraged the GEF to ensure consistency with the provisions of Article 11 of the Convention and the MOU between the COP and the GEF Council, and guidance provided by the COP to the GEF.⁷⁵

154. The RAF was adopted by the GEF Council in September 2005. The COP, by its decision 5/CP.11, requested the GEF to include in its regular annual reporting information on the initial application of the RAF in the allocation of resources in the fourth replenishment and inform the COP on how the RAF is likely to affect funding available to developing countries for the implementation of their commitments under the Convention.

155. The RAF is designed to increase the predictability and transparency in the way the GEF allocates resources. The resources each eligible country can expect from the GEF will be specified for the four years of the replenishment period and initial allocations will be updated in the middle of the replenishment period. The RAF will begin implementation on 1 July 2006. Each eligible country can expect to receive a minimum allocation of USD 1 million. The total amount that a country receives from the GEF climate change focal area cannot exceed a ceiling of 15 per cent of the resources available. Two indices, the GEF Benefits Index and the GEF Performance Index, will be used in combination to determine the share of resources that each country is allocated. The GEF Benefits Index measures the potential of a country to generate global environmental benefits, and the GEF Performance Index measures a country's capacity, policies and practices relevant to successful implementation of GEF programmes and projects. The GEF Performance Index relies on World Bank Country Policy and Institutional Assessment data.

156. The RAF does not change the GEF project cycle. Each country still needs to work with a GEF implementing/executing agency to develop and prepare concepts for review, pipeline entry and inclusion in a work programme. Knowing country allocations, however, will enable each country to better prioritize projects. In addition, the RAF should allow each country to integrate GEF projects into their normal development operational cycle on the basis of the expected GEF resources.

157. China, India and the Russian Federation are likely to receive the most under the RAF formula, followed by Brazil, Mexico, Poland and South Africa, followed by a group of countries that includes Argentina, Egypt, Indonesia, Iran, Kazakhstan, Malaysia, Pakistan, Romania, Thailand, Turkey, Ukraine and Venezuela.⁷⁶ In the past, the GEF tended to provide a higher level of resources in those countries with a greater potential for GHG emission reduction. This trend will continue.

158. There will be an independent midterm review of the RAF to be considered by the GEF Council in November/December 2008.

B. Special Climate Change Fund

159. As of 28 February 2006, the original pledges to the SCCF totaled USD 34 million. Total cash receipts in the SCCF stood at USD 32.5 million. Of this sum, USD 28.5 million was pledged for the

⁷⁵ FCCC/CP/2004/10, annex III, paragraph 11.

⁷⁶ "Implementing the GEF resource allocation framework", table 2, in GEF/C.27/5/Rev.1.

SCCF's Programme for Adaptation and USD 2.7 million for the SCCF's Programme for Transfer of Technology. After deductions for administration, the total amount available for allocation was USD 31.2 million.⁷⁷

C. Least Developed Countries Fund

160. As of 28 February 2006, the LDCF had received USD 41.4 million in contributions and investment income. Allocations of USD 11.6 million had been made and USD 29.8 million remained available for allocation. Expended funds were directed to projects (USD 9.6 million), implementing agency fees (USD 1 million), and GEF secretariat and trustee administrative fees (USD 950,000).⁷⁸

V. Summary of findings relating to climate change in the overall performance study of the Global Environment Facility

A. Overall assessment

161. OPS 3 "finds – as did OPS2, the 2002 COP 8 review of the GEF, and CCPS2004 – that the GEF has effectively performed its role as financial mechanism of the UNFCCC and has been responsive to its mandate as defined by the Convention and guidance and priorities as given by the COP. GEF funding of projects has been in direct response to the priorities outlined by the COP. Moreover, communication and coordination between the UNFCCC and the GEF secretariat has improved over the past few years. The GEF has been particularly responsive in quickly mobilizing and implementing special trust funds, as requested by the COP. The GEF has been responsive in supporting countries' first rounds of national communications".⁷⁹

162. OPS 3 found that the GEF climate change portfolio has performed satisfactorily (given its limited resources), meeting the interim GHG emission targets set by GEF 3. OPS 3 highlighted, however, that the intended GHG impacts vary across the climate change programmes, investment levels and country typology, and across individual projects.⁸⁰

163. According to OPS 3, although the role of the GEF is relatively minor in slowing climate change, the organization can play an important catalytic role in influencing, developing and transforming the markets for energy in developing countries so that over the long term their economies are less carbon-intensive than they would have otherwise been. The GEF has played an important catalytic role in developing and transforming energy markets in developing countries, particularly through its energy efficiency portfolio. Results of efforts aimed at market transformation, in the renewable energy cluster, have been more varied.⁸¹

164. OPS 3 also made a number of other general recommendations. The GEF should cultivate a stronger country programme focus and should incorporate RAF concepts in ranking projects at the country level. It should also track sustainability and catalytic effects. The GEF was also encouraged to strengthen two-way communication between the GEF secretariat and the convention secretariats, and establish a formal information management system. With regard to the GEF's network responsibilities, the GEF secretariat's role as the network administrator should be strengthened. The roles and

⁷⁷ Information provided by the GEF secretariat.

⁷⁸ Information provided by the GEF secretariat.

⁷⁹ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 8.

⁸⁰ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 30.

⁸¹ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 30.

responsibilities of all of the GEF's partners should be clarified; monitoring and evaluation should be fostered at all levels; and the role of the private sector should be expanded.⁸² Finally, OPS 3 recommended that additional resources be allocated to the GEF's small grants programme.

B. Strategic direction and programming

165. Although OPS 2 concluded that the GEF would benefit from a more focused programme in the climate change focal area, this does not appear to have been fully achieved in GEF 3. CCPS2004 found that "the linkages between GEF's overall mission or goals, its strategic priorities, OPs, project clusters, and performance measurement indicators are no longer conceptually clear, nor are they entirely consistent". OPS 3 recommended that the GEF secretariat take the lead to improve overall strategic coherence by clarifying the goal of market transformation outcomes contributing to GHG reduction impacts, and how the operational programmes and underlying strategies augment this goal.⁸³

166. In the discussion and negotiation documents for GEF 4, the GEF secretariat has clarified and further developed its mission, intervention strategies and programme priorities for the climate change focal area.⁸⁴

C. Strategic resource allocation

167. OPS 3, quoting CCPS2004, concluded that GEF needs to "improve strategic choice and resource allocation... in order to ensure that the bulk of the portfolio is directed toward mitigation efforts in countries with relatively higher levels of GHG emissions and market transformation potential".⁸⁵ OPS 3 further suggested that for the GEF to develop a more coherent strategy for those countries that are likely to receive substantial levels of funding, the GEF should consider developing country strategies to identify sectoral and project priorities. In this context, the second national communications represent a "significant opportunity for countries to develop a national strategy that includes consideration of mitigation and adaptation elements".⁸⁶

D. Measuring results

168. OPS 3 concluded that the quality of data in the GEF climate change portfolio is still relatively poor. It quoted the CCSP2004's recommendation that the GEF secretariat "provide explicit guidance regarding the realistic calculation of GHG avoidance or reduction in project design and implementation and the manner in which impacts should be monitored and reported". Discussions are ongoing about how to move to a more harmonized approach to the climate change focal area that will generate measurable quantifiable results, where possible, and clearer measures of impacts where quantification is more difficult. Additionally, the approach developed by the GEF secretariat, the GEF Evaluation Office, implementing agencies and executing agencies to estimate GHG emissions avoided through GEF projects should be published as a guide for project proponents as soon as possible.⁸⁷

⁸² For more information see "Review of GEF Engagement with the Private Sector – Final Report", in GEF/C.23/Inf.4.

⁸³ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 30.

⁸⁴ See GEF/R.4/Inf.7 and GEF/R.4/31.

⁸⁵ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 31.

⁸⁶ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 31.

⁸⁷ "OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version", GEF, June 2005, page 31.

E. Adaptation

169. Country focal points and non-governmental organization (NGOs) in several regional workshops, particularly the Pacific region, suggested that the GEF must fund activities in the area of adaptation to climate change because this goal is in guidance from the COP, and the mitigation of GHG emissions, owing to the low volumes involved, is not a high national priority. Stakeholders in several regions also noted, however, that adaptation will be a complicated new programme area because adaptation issues are typically local, and thus the calculation of global environmental benefits and incremental costs will be difficult.⁸⁸ OPS 3 recommended that the GEF identify and synthesize lessons learned from activities implemented under the GEF 3 adaptation strategic priority to inform future activities and to feed into any potential revisions of the GEF adaptation strategy. OPS 3 concluded that “the GEF will need to develop plans for a more strategic response to adaptation following the pilot program, given the cost paradigms each funding source requires”.⁸⁹

170. The GEF secretariat has prepared, in its documentation for GEF 4, a proposal regarding strategies and programme priorities for adaptation.⁹⁰

F. Carbon financing

171. OPS 3 recommended that it would be “useful to clarify GEF involvement in carbon finance programs” and suggested that carbon finance will play an increasing role in improving the financial returns of many projects of the type that are in the GEF portfolio.

172. The GEF secretariat proposed an approach to carbon finance as part of the Private Sector Draft Strategy submitted to the GEF Council meeting in November 2005.⁹¹ The approach consists of three elements: GEF opens markets and removes barriers; it can provide a guarantee for carbon-financed investments; and, for projects on biodiversity or land degradation, biocarbon credits can be accessed so long as GEF funds are not used for the transaction costs of the carbon market.

173. The COP and the GEF Council have yet to provide guidance and decisions on the interface between GEF project activities and carbon finance.

VI. Additional issues for consideration

174. Parties may wish to use this synthesis report as a basis for discussions. It should be noted, however, that the small number of submissions by Parties on the third review of the financial mechanism made it difficult to reflect in this report an overall view of expectations from different constituencies. Views by Parties expressed at SBI 24 will provide a more accurate account of the experiences of Parties with regard to the financial mechanism’s performance.

175. This synthesis report was prepared while the negotiations on GEF 4 were still under way. A full assessment of resources allocated to climate change will depend on the results of these negotiations, as well as on the implementation of the RAF.

176. A particular GEF programme or guideline may cover different aspects of specific guidance by the COP (for example “top-up” funding for capacity-building). On the other hand, the same COP guidance can be covered by different GEF funds and activities (for example for adaptation). Because of

⁸⁸ “OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version”, GEF, June 2005, page 31.

⁸⁹ “OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility, Executive Version”, GEF, June 2005, page 32.

⁹⁰ See GEF/R.4/Inf.7, section 7.

⁹¹ See “GEF Strategy to Enhance Engagement with the Private Sector”, in GEF/C.27/13.

this, information on GEF activities is not always available in a manner that corresponds clearly to specific guidance by the COP.

177. Information on specific COP guidance, GEF activities and recommendations of OPS 3 highlighted the need for the COP and the GEF to consider clarifying complementarities and synergy among different activities. These included: the possible role and use of support to second national communications in order to prioritize activities in the climate change pipeline in a manner that is consistent with national priorities; complementarities in funding for adaptation activities under the SPA, LDCF and SCCF; and the possible role of the GEF with regard to carbon financing. The Parties may wish to consider these issues in more in detail when reviewing the financial mechanism's performance and providing guidance to the GEF.

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