Adaptation Committee

Version of 4 March 2014

Fifth meeting of the Adaptation Committee
Bonn, Germany, 5–7 March 2014

Background paper

Financing for national adaptation plans

Recommended action by the Adaptation Committee
The AC may use this background paper in its dialogue with the GEF and representatives of the AF Board, the GCF Board and the LEG. In addition, the AC, possibly through its NAP taskforce and in collaboration with the LEG, may seek clarification on some of the issues that could challenge developing countries in accessing resources from the GEF. The AC may also follow up with the GCF Board on the GCF's proposed results management framework, results areas and indicators as they apply to adaptation finance.

1. Introduction

Throughout 2013, the Adaptation Committee (AC) considered issues related to financing for national adaptation plans (NAPs), and decided to conduct further work on the matter in 2014, with a view to better understanding the technical issues that may challenge developing countries in accessing resources for NAPs. The AC identified the following issues requiring further technical exploration:

a) The guiding principles contained in the paper of the Global Environment Facility (GEF) entitled *Operationalizing support to the preparation of the national adaptation plan process in response to guidance from the UNFCCC COP*,[1] including how those principles relate to the existing operational policies and guidelines for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), as well as to the issue of agreed full costs of activities and the implications of the translation of 'full cost of adaptation' into 'additional costs';

b) Procedures and/or requirements for least developed countries (LDCs) to access the LDCF to finance NAPs;

c) Procedures and/or requirements for non-LDC developing countries to access the SCCF to finance NAPs.

The AC also decided that such work will be supported by a background paper to be developed on the issues enumerated above, as well as a dialogue at the 5th meeting of the Adaptation Committee with GEF representatives of the LDCF and the SCCF and representatives of other bodies and funds, such as the LDC Expert Group (LEG), the Adaptation Fund and the Board of the Green Climate Fund Board (GCF Board).[2]

2. Scope of the paper

Building on the AC document on NAPs for non-LDC developing countries (AC/2013/26), this background paper discusses the abovementioned issues, and provides an overview on other aspects of financing for NAPs. It is structured around the following sections:

- Operationalization by the GEF of guidance from the Conference of the Parties (COP) on the LDCF and the SCCF;

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[1] Document GEF/LDCF.SCCF.14/06, available at <www.thegef.org/gef/meetingdocs/96/50>.

[2] FCCC/SB/2013/2, paragraphs 39-40.

- Operationalization by the GEF of COP guidance on financing for the NAPs;
- Analysis of issues that may challenge developing countries in accessing resources from the GEF for NAPs;
- Examples of financing modalities for adaptation in the context of programmes and funds under and outside of the Convention process.

The paper concludes with next steps that the AC may wish to undertake. Annex 1 and annex 2 lay out the procedures and/or requirements for countries to access the LDCF and SCCF, respectively, to implement projects.

3. Operationalization by the GEF of COP guidance on the LDCF and SCCF

The LDCF and SCCF were established by the COP through decision 7/CP.7 in 2001. The LDCF was mandated to support the work programme of the LDCs, and the SCCF activities, programmes and measures relating to climate change, including in the area of adaptation, in developing countries. Both funds are operated, under the authority of the COP, by the GEF as an operating entity of the financial mechanism of the Convention. The LDCF/SCCF Council is the main governing body of both funds. It functions with primary responsibility for developing, adopting, and evaluating LDCF and SCCF policies and programmes. The COP provides guidance to the GEF on the operation of these funds, including activities, programmes and measures to be supported.[3] The GEF responds to the COP guidance by translating the guidance received into operational guidelines. The GEF reports annually to the COP on its operations, including the implementation of the operational guidelines.[4]

The following is a flow of steps from COP guidance, to the development of GEF operational guidance, and to the implementation of the GEF operational guidelines:

a) The COP provides initial guidance to the GEF for the operation of the funds, including on activities, programmes and measures to be supported. The guidance usually includes a request to the GEF to report to the COP, at its next session, on the measures the GEF has taken to implement the COP guidance;[5]

b) In response to the COP guidance, the GEF develops operational guidelines in the subsequent year, which is presented to the next LDCF/SCCF Council meeting[6] for approval;

(*Example: For decision 27/CP.7 ("Guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the least developed countries fund"), the GEF produced operational guidelines in April 2002.*[7] *For decision 5/CP.9 ("Further guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Special Climate Change Fund"), the GEF produced operational guidelines in October 2004*[8]*)*;

c) Once approved by the GEF Council, the operational guidelines enter into force and countries start to submit proposals for funding, given also that legal and administrative arrangements for the operation of the fund are concluded;

(*Example: The LDCs started submitting project proposals for funding for the preparation of national adaptation programmes of action (NAPAs) in 2002. By December 2002, three*

[3] Relevant COP decisions are available at <unfccc.int/3656>.
[4] The annual GEF reports are available at <unfccc.int/3741>.
[5] For example, decision 27/CP.7 (2001) contains initial guidance to the GEF on the operation of the LDCF, followed by further guidance in decisions 8/CP.8, 6/CP.9, 3/CP.11, 5/CP.14, 5/CP.16, and 10/CP.18.
[6] <www.thegef.org/gef/council>.
[7] GEF. 2002. *GEF operational guidelines for expedited funding for the preparation of national adaptation programs of action by least developed countries.* Available at < www.thegef.org/gef/sites/thegef.org/files/documents/document/NAPA_guidelines_revised__April_2002_.pdf>.
[8] GEF. 2004. *Programming to Implement the Guidance for the Special Climate Change Fund Adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth Session.* Document GEF/C.24/12, available at <www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf>.

projects from Cambodia, Eritrea and Samoa were approved by the GEF Council, with many more projects approved in 2003);[9]

d) The GEF includes information on the operationalization of the COP guidance, including progress, in its reports to the next COP session;

e) The COP then welcomes the reports of the GEF, and provides further guidance as necessary.

The COP guidance to the GEF includes various issues that the GEF is requested to apply and/or explore in operating the LDCF and the SCCF. These include establishing simplified procedures for expedited access; issues related to the additional costs of adaptation; ensuring equitable/balanced access, supporting the development of a programmatic approach and issues relating to direct access.

Simplified procedures for expedited access

The COP requested the GEF to adopt simplified procedures and arrange for expedited access to the LDCF by the LDCs, while ensuring sound financial management.[10] For NAPA preparation, the GEF introduced the following modalities:

- Projects less than or equal to USD 200,000 to be reviewed and approved by the GEF CEO using expedited procedures;
- Projects above USD 200,000 to be reviewed and approved using standard procedures of the GEF project cycle (going through the LDCF/SCCF Council).

Subsequently, all LDCs applied for grants for NAPA preparation ranging from USD 190,000 to USD 200,000.[11] The COP also requested the GEF to take into account, inter alia, … guidelines for expedited support … when developing operational guidelines for funding of the implementation of NAPAs.[12] The GEF subsequently applied the following simplified procedures for expedited access:[13]

- Review and approval of LDCF projects on a rolling basis throughout the year;
- Faster access to LDCF funding;
- LDCF projects requesting up to USD 2 million can utilize the medium-sized project (MSP) approval process;
- Project proposals are circulated to the GEF Council by mail for review and approval on a "no objection" basis;
- Projects will be approved unless four or more Council members request that the project be discussed and approved at the next GEF Council meeting.

The following are average timelines for accessing resources from the LDCF based on submitted projects as at May 2013:[14]

- 16 months for LDCs to develop project proposals that are able to enter the LDCF project cycle following the completion of their NAPAs;
- Three months for the approval of the Project Identification Form (PIF);
- 18 months from PIF approval to GEF CEO endorsement of the project;
- 37 months between NAPA completion and GEF CEO Endorsement, whereas the average time elapsed between PIF submission and GEF CEO Endorsement would be 21 months.

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9 Document GEF/C.22/Inf 5/Rev.1, Annex III, available at <www.thegef.org/gef/sites/thegef.org/files/documents/C.22.Inf_.5.Rev_.1_LDC_Trust_fund_for_climate_change_FINAL_1029.pdf>.

10 Decision 27/CP.7, paragraph 1(d).

11 Document GEF/C.28/18, Annex A, available at <www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.28.18.pdf>.

12 Decision 6/CP.9, paragraph 3(d).

13 See document GEF/C.28/18 mentioned above.

14 The time between the different steps of the project cycle also depends on the availability of resources under the LDCF, as well as support by the GEF implementing agency. For NAPAs completed last over the last few years when resources were available, the time was as short as 3 months (for Timor-Leste) or 7 and 9 months, for Myanmar and Somalia respectively.

The times above are averages, and there are variations, with some LDCs having taken longer to get projects funded as they waited for COP guidance on the LDCF to start supporting the implementation of NAPAs – this was done in December of 2005, while the first NAPAs were completed in 2004 and 2005. The GEF was able to approve the first LDCF grant towards NAPA implementation in 2008.

Under the SCCF, the COP requested the GEF to arrange expedited access to the SCCF in keeping with current practices of the GEF, taking into account the need for adequate resources to implement eligible activities, programmes and measures.[15] The GEF LDCF/SCCF Council has over the years undertaken measures to revise project and programming cycle.[16] This included simplifying project preparation grant requests, increasing the ceiling for medium sized projects to USD 2 million, streamlining all project cycle related templates and revising review sheets, organizing multi-focal area project reviews to be more systematic and consistent, modifying milestone extension processes, introducing tranche payment of Agency fees, monitoring Agency service standards, and streamlining procedures for enabling activities.

Additional costs of adaptation and co-financing

Under the LDCF, the COP requested the GEF to provide funding so as to meet the agreed full cost of preparing the NAPAs, given that the preparation of NAPAs will help to build capacity for the preparation of national communications under Article 12, paragraph 1, of the Convention.[17] For the implementation of NAPAs, the COP requested the GEF to take into account, inter alia, … criteria for supporting activities on an agreed full-cost basis, taking account of the level of funds available … when developing operational guidelines for funding of the implementation of NAPAs.[18] Furthermore, the COP, by its decision 3/CP.11, paragraph 2, decided that full-cost funding shall be provided by the LDCF to meet the additional costs of activities to adapt to the adverse effects of climate change as identified and prioritized in the NAPAs. In response, the GEF, in its operational guidelines for funding implementation of NAPAs, defined the following terms:

- *Baseline scenario* - the course of action to be taken in the absence of climate change;
- *Adaptation scenario* - the course of action to be taken to respond to the adverse impacts of climate change so as to achieve sustainable results;
- *Additional costs* - the cost difference between the baseline and adaptation scenarios.

So the term 'full adaptation cost' is processed by the GEF as 'additional cost' of adaptation.

Through decision 3/CP.11, paragraphs 3-4, the COP further:

- Requested the GEF to develop a co-financing scale for supporting activities identified in NAPAs, taking into account the circumstances of LDCs;
- Decided that activities, identified in NAPAs, that are not supported through full-cost funding, will be co-financed through the scale;
- Requested the GEF to develop flexible modalities that ensure balanced access to resources given the level of funds available, in accordance with decision 6/CP.9.

The GEF defined co-financing (also the project's baseline) in the context of the LDCF as those costs which would be incurred for business as usual and be covered by existing development investments. The GEF also developed a *sliding scale* or proportional scale which takes into account the size and nature of projects, with the following funding steps:

- 100% funding for projects whose total costs do not exceed USD 300,000;
- 75% funding for projects whose total costs range from USD 300,000 to 500,000;
- 50% funding for projects whose total costs range from USD 600,000 and 3,000,000;
- 33% funding for projects whose total costs range from USD 6,000,000 to 18,000,000;
- 25% funding for projects whose total cost exceed USD 18,000,000.

NAPA projects were therefore expected to estimate the *additional costs* to address climate change of the proposed measure, which would then be funded at full cost. In the case that it was too

15 Decision 5/CP.7, paragraph 5.
16 Documents GEF/LDCF.SCCF.13/05, paragraph 56, and GEF/C.45/04.
17 Decision 27/CP.7, paragraph 1(a).
18 Decision 6/CP.9, paragraph 3.

difficult to calculate the additional cost, the intention was for countries to simply apply the sliding scale to estimate the LDCF contribution to the project. Countries communicated a variety of challenges with the application of *co-financing* by the GEF, both of a political and technical nature.[19] For example, they communicated that they lacked clear guidance on how to define adaptation components as opposed to baseline development objectives for project profiles.[20] They also proposed to reduce the requirements for showing adaptation-additionality of proposed projects, since the GEF's sliding scale for co-financing was really supposed to determine the contribution from the LDCF.[21] The challenge with the application of co-financing has remained an issue of concern throughout LDCF negotiations. The GEF undertook various measures to explain the concept, including through the publication *Accessing resources under the LDCF*. Countries, on the other hand, maintained that the issue was not about comprehension, but the way they had to apply the concept.[22]

Similar to the LDCF, the initial operational guidelines for the SCCF[23] stated that the SCCF finances the additional costs of achieving sustainable development imposed on vulnerable countries by the impacts of climate change. The GEF also introduced a sliding scale for the SCCF (albeit less favourable than the LDCF one), which foresaw a greater percentage of co-financing to be required for projects with larger total costs:

- Up to 50% funding for projects whose total costs are less than USD 1 million;
- Up to 33% funding for projects whose total costs range from USD 1 to 5 million
- Up to 25% funding for projects whose total cost exceed USD 5 million.

In accordance with decision 5/CP.9, paragraph 1, which provided that the SCCF should serve as a catalyst to leverage additional resources from bilateral and other multilateral sources, the GEF seeks to maximize co-financing from other sources for projects and programs financed under the SCCF. Co-financing under the SCCF is understood to be the BAU development financing component.[24]

By its decision 11/CP.17, paragraph 2(c), the COP requested the GEF … to clarify the concept of additional costs as applied to different types of adaptation projects under the LDCF and the SCCF which seek to respond to climate change risks. In response, the GEF developed a paper entitled *Clarification on the Concept of Additional Costs of Adaptation to Climate Change*.[25] The paper states that the concept of additional cost, in the context of LDCF and SCCF, is the amount of funding necessary to implement adaptation measures that would not be necessary in the absence of climate change.

In its updated operational guidelines for the LDCF and the SCCF of October 2012,[26] the GEF stated that the "sliding scale" modality had been phased out. Given the development and growth of experience in the design and implementation of adaptation projects, the additional cost will only be assessed based on the comparison of the cost of BAU development to the estimated cost of climate-resilient development, or other project-appropriate means. The GEF has discontinued the use of the sliding-scale option in estimating the additional costs of adaptation since November 2012. The guidelines also state that as the LDCF and SCCF fund the full cost of adaptation, they

[19] Documents FCCC/SBI/2008/14; FCCC/SBI/2012/7, paragraph 60; and FCCC/SBI/2012/INF.13, paragraphs 35 and 38.
[20] Document FCCC/SBI/2007/32, paragraph 17.
[21] Document FCCC/SBI/2008/MISC.8.
[22] Documents FCCC/SBI/2010/17, paragraph 82(a), and FCCC/SBI/2010/MISC.9.
[23] Document GEF/C.24/12 available at <www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf>.
[24] Document GEF/LDCF.SCCF.13/05, paragraph 31.
[25] Document GEF/LDCF.SCCF.12/Inf.04, available at <www.thegef.org/gef/sites/thegef.org/files/documents/Clarification%20on%20Additional%20Cost%208%20May.pdf>.
[26] Document GEF/LDCF.SCCF.13/04, available at <www.thegef.org/gef/council_document/updated-operational-guidelines-least-developed-countries-fund> and document GEF/LDCF.SCCF.13/05, available at <www.thegef.org/gef/council_document/updated-operational-guidelines-special-climate-change-fund-adaptation-and-technolog>.

can also fund standalone projects, provided that what is being financed is shown to be exclusively adaptation interventions, and not linked to BAU development.

Equitable/balanced access

Regarding the LDCF, the COP requested the GEF to take into account … equitable access by LDC Parties to funding for the implementation of NAPAs (decisions 6/CP.9, paragraph 3(b)), and to develop flexible modalities that ensure balanced access to resources given the level of funds available … (decision 3/CP.11, paragraph 5). Subsequently, the GEF determined a maximum amount of resources that each LDC can access from the LDCF for the implementation of NAPAs.[27] This amount is mainly based on the level of resources available in the LDCF. It does not take into account the total cost of priority activities identified in the NAPAs, or the geographical size of each country, but avails equal amount of resources to each LDC. This amount was USD 3.6 million in 2009,[28] and has risen to USD 30 million by 2014.

With regard to the SCCF, the GEF secretariat in its updated operational guidelines for the SCCF noted that demand for SCCF resources continues to significantly exceed the availability of funds. As a result, the GEF secretariat introduced a pre-selection process to identify and prioritize suitable projects and programmes for admission in the formal project cycle so that that proposals entering the formal cycle match the funds available. In addition to project or programme quality, balanced distribution of funds among eligible countries and equitable regional distribution, the pre-selection process applies the following two criteria: balanced support for all priority sectors under the SCCF adaptation window and balanced distribution among GEF agencies based on comparative advantage.

Programmatic approach

The COP, in 2011, requested the GEF to support the development of a programmatic approach for the implementation of NAPAs by those LDC Parties that wish to do so (decision 9/CP.17, paragraph 1(b)). In response, the GEF, in its updated guidelines for the LDCF stated that the GEF's programmatic approach as elaborated in *GEF Project and Programmatic Approach Cycles* (November 2010, GEF/C.39/Inf.03.) applies to the LDCF unless other decision are taken by the LDCF/SCCF council, which as of to date has not made any exceptions.

According to the GEF, the overall objective of the programmatic approach is to secure a larger-scale and sustained impact in adaptation by implementing medium to long-term strategies for achieving specific adaptation objectives that are consistent with NAPAs of recipient countries. By working through programmatic approaches, the LDCF aims to disburse large-scale LDCF resources effectively and efficiently to countries and regions, with enhanced accountability and oversight. Similar to the LDCF, countries can also avail themselves of a programmatic approach under the SCCF following the same programmatic approach cycle as the GEF Trust Fund.

Direct access

In May 2011, under the provisions of paragraph 28 of the GEF Instrument, the GEF Council decided to broaden its partnerships by approving the policies, procedures, and criteria for a pilot on accrediting new institutions, including national institutions and regional organizations, to serve as GEF Partner Agencies for the implementation of GEF projects, including under the LDCF and SCCF. The expansion of the GEF Partnership aims at enhancing country ownership within the GEF and at giving recipient countries greater choice in terms of agencies with which they work.

In addition, recipient countries could take advantage of the direct access modality without accreditation for enabling activities financed under the LDCF and SCCF. Based on a recommendation made by the participants to the fifth replenishment of the GEF Trust Fund, in July 2010, the GEF Council approved the *Policies and Procedures for the Execution of Selected GEF Activities - National Portfolio Formulation Exercise and Convention Reports - with Direct Access by Recipient Countries.*[29] In accordance with the modality introduced, countries can opt to access

[27] See GEF document *Accessing resources under the Least Developed Countries Fund*, paragraph 35, available at <www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf>.

[28] FCCC/SBI/2009/13, paragraph 11.

[29] GEF document GEF/C.38/06/Rev.1. Available at <www.thegef.org/gef/node/3221>.

resources directly from the GEF Secretariat for the preparation of Convention Reports, with grants amounting to no more than USD 500,000.

4. Operationalizing COP guidance on financing for NAPs by the GEF

The COP in 2011 requested the GEF, …, to consider how to enable activities for the preparation of the NAP process for LDC Parties (decision 5/CP.17, paragraph 22). In response, the GEF's report to COP 18 stated that:

- The GEF and its agencies have the experience and the operational modalities required to support the NAP process in LDCs through the LDCF;
- The GEF welcomes further guidance from the COP to clarify whether enabling activities in support of NAPs are to be adopted in the LDC work programme, and whether such activities are to be prioritized for financing under the LDCF;
- Additional designated contributions to the LDCF would be necessary to allow the GEF to support the NAP process in LDCs in addition to NAPA implementation.

In the response, the GEF also included elements on how non-LDCs could be supported through the SCCF, although there was no specific guidance from the COP at that moment.

By decision 12/CP.18, the COP provided guidance to the GEF … to enable activities for the preparation of the NAP process by the LDC Parties (paragraph 1). In response to a recommendation by the AC,[30] the COP also requested the GEF … through the SCCF, to consider how to enable activities for the preparation of the NAP process for interested developing country Parties that are not LDC Parties (paragraph 4).

The GEF developed a paper titled *Operationalizing Support to the Preparation of the National Adaptation Plan Process in Response to Guidance from the UNFCCC COP,*[31] to provide an operational basis for supporting the NAP process in eligible developing countries. It highlights the objectives and guiding principles of the NAP process, and concludes that these objectives and guiding principles complement existing eligibility criteria and quality standards for accessing resources under the LDCF and the SCCF. It provides the scope of the LDCF/SCCF support, and the financing modalities that the GEF will apply. The paper concludes that the GEF will continue to apply the policies presented in the updated operational guidelines for the LDCF and the SCCF (documents GEF/LDCF.SCCF.13/04 and GEF/LDCF.SCCF.13/05, respectively).

5. Issues that may challenge developing countries in accessing resources from the GEF for NAPs

The guiding principles, as referred to in the GEF paper on operationalizing support to NAP preparation, are based on the guiding principles for NAPs as defined in decision 5/CP.17. The GEF states that these guiding principles do not override, but rather complement the existing eligibility criteria and quality standards for accessing resources under the LDCF and SCCF.

According to the GEF paper, the guiding principles stipulate that the NAP process be:

(i) Consistent with the Convention and responsive to COP guidance;
(ii) Country-driven and country-owned: consistent with nationally identified priorities, including those reflected in relevant national documents, plans and strategies; and endorsed by national focal points;
(iii) Coordinated, coherent and complementary: particularly with respect to other relevant initiatives planned or underway in-country, as well as other sources of multilateral and bilateral support;
(iv) Integrated into relevant new and existing development planning processes, policies, strategies and frameworks;
(v) Continuous: uninterrupted in time and in the sequence of activities it encompasses, rather than a step-by-step process;

[30] FCCC/SB/2012/3, paragraph 27(e).
[31] GEF document GEF/LDCF.SCCF.14/06 available at <www.thegef.org/gef/council_document/operationalizing-supoprt-preparation-national-adaptation-plan-process-response-guid>.

(vi) Progressive: with each element and activity contributing towards the achievement of the objectives of the NAP process;
(vii) Iterative: incorporating results, assessments, evaluations and associated lessons from the implementation of adaptation measures; as well as innovations and emerging knowledge to continuously inform and enhance the effectiveness and efficiency of the NAP process;
(viii) Gender-sensitive: recognizing the different vulnerabilities and adaptation needs among women and men, the NAP process should incorporate gender-sensitive assessments of impacts, vulnerabilities and appropriate adaptation measures, allow the participation of both women and men, and adopt gender-sensitive approaches to monitoring and evaluation;
(ix) Participatory and inclusive: ensuring public involvement, including for civil society and indigenous peoples, through participatory approaches to design, implementation, as well as monitoring and evaluation;
(x) Transparent: ensuring continuous access to information in accordance with GEF policy and procedures; and
(xi) Guided by the best available science and, as appropriate, traditional and indigenous knowledge.

While the paper concludes that the GEF will continue to apply the policies presented in the updated operational guidelines for the LDCF and the SCCF, the paper at the same time states that any support provided by the GEF, through the LDCF and the SCCF, for the NAP process would differ from past LDCF financing towards the preparation of NAPAs both in its objectives and its scope (GEF/DCF.SCCF.14/06, paragraph 5). The GEF may need to clarify how the operational guidelines for funding NAPAs, for example, would be appropriate to serve as guidance for funding activities to support the NAP process, in case such guiding principles would be a potential barrier for countries to access funds. The NAP process, being continuous and progressive, may require a slightly different approach to ensure even more flexibility and continuity in funding, as well as easy scaling up and scaling out of the support as the NAP process evolves over time. As an example, NAPA projects could not be easily modified to simply expand coverage of beneficiary communities for instance; new project proposals were required for this.

Additional issues which may challenge developing countries in accessing resources, include the following:

<u>Issues related to scope of support, additional costs of adaptation and access</u>

Regarding the scope of support, the GEF stipulates that "the elements and activities identified in the initial guidelines do not, as such, intend to define the appropriate scope of GEF support to any particular country. Instead, any support provided through the LDCF or the SCCF will be tailored to country-specific needs, circumstances and capabilities. Assessments of existing support, ongoing processes and initiatives, information and capacities, as well as relevant gaps and needs, as per paragraph 2 of the initial guidelines, will be instrumental in defining the full scope of support provided through the LDCF or the SCCF" (GEF/DCF.SCCF.14/06, paragraph 16). This statement seems to distance the GEF from using the initial guidelines as a basis for supporting the formulation of national adaptation plans. Rather, the statement points to a separate process that would assess the needs of countries – it is not clear what process would be followed to assess such needs, especially since the gaps and needs that countries will identify as part of paragraph 2 of the initial guidelines are in fact, an outcome of the NAP process itself, which would require the support in order to be carried out

Regarding the costs of adaptation, COP 18 requested the GEF, as a first step under the national adaptation plan process, to provide funding from the LDCF, to meet the agreed full cost, as appropriate, of activities to enable the preparation of the NAP process as described in the elements contained in paragraphs 2–6 of the initial guidelines for the formulation of national adaptation plans in the annex to decision 5/CP.17. The GEF in its document equates the notion of full cost of adaptation with that of additional cost to address climate change (i.e. costs of adaptation added to costs of BAU or baseline development). "Given that the NAP process seeks to integrate adaptation into development policy and planning, any request for funding in support of such a process should follow the principle of additional cost. The GEF notes, however, that certain activities that fall within the scope of the NAP process, such as information and capacity needs assessments, may not have a direct link to a BAU development investment or activity" (GEF/DCF.SCCF.14/06, paragraph 28). The initial guidelines for the formation of NAPs refer to activities aimed at integrating climate change adaptation into development and planning (paragraph 3(c) in the annex to decision 5/CP.17). The quoted text above would seem to imply that activities in response to this paragraph 3(c), would be the ones that would follow the principle of additional cost. Many of the suggested activities in the NAP process, in addition to the information and capacity needs assessments mentioned, may "not have a direct link to a BAU development investment or activity."

Regarding access, the GEF document does not provide clarity as to what extent funding for such enabling activities could benefit from simplified or direct access modalities, for example similar to NAPA preparation or to the possibility of direct access by national entities for grants up to USD 500,000 for Convention reports, which could enhance country-ownership.

Issues related to project and programmatic approaches, and the continuous, progressive and iterative nature of the NAP process

According to the GEF, "notwithstanding the continuous, medium and long-term nature of the NAP process, the scope of GEF support should be determined on a case-by-case basis; with specific, measurable and time-bound results. … To bridge the gap between time-bound support and the objectives and nature of the NAP process, any GEF support will have to be associated with appropriate sustainability strategies" (GEF/DCF.SCCF.14/06, paragraph 18). There is need to clarify how the requirement of specific, measurable and time-bound results could be applied to the continuous, progressive and iterative nature of the NAP process. It remains also unclear to what extent the association with appropriate sustainability strategies could constitute preconditions to accessing funds.

As noted by the GEF, "the GEF's ability to support the NAP process through the LDCF and the SCCF will remain contingent on the availability of resources" (GEF/DCF.SCCF.14/06, paragraph 20). Given current resource constraints, in particular under the SCCF, the application of programmatic approaches, which by definition would allow for the disbursement of larger funds and which could be more appropriate for the NAP process, could remain elusive.

In conclusion, while the LDCF/SCCF Council endorsed the document *Operationalizing Support to the Preparation of the National Adaptation Plan Process in Response to Guidance from the UNFCCC COP* as an operational basis for supporting the national adaptation plan process in eligible developing countries, the GEF may wish to provide clarity on some of the issues raised so that eligible countries can proceed smoothly with accessing finance for the preparation of the NAP process from the LDCF and SCCF, if they have not started to seek this support already.

6. Examples of financing procedures under other adaptation programmes and funds

This section provides examples of relevant procedures on adaptation finance under other programmes and funds under and outside the Convention process that the GEF seeks to complement through LDCF/SCCF funding for NAPs. Particular attention is provided to issues that have been challenging under the LDCF/SCCF and that may become increasingly relevant for NAP financing, such as programmatic approaches, taking into account the guiding principles for the NAP process.

6.1 Under the Convention

Adaptation Fund

The Adaptation Fund (AF) was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. Provision of funding under the AF is based on, and in accordance with, *the Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.[32]

Developing countries can submit funding proposals to the AF through their nominated national implementing entities (NIEs) (*direct access*) or through multilateral implementing entities.

[32] Available at <www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%201.pdf>.

Funding is provided in the form of grants only. The AF provides project preparation grants for the preparation of projects or programmes by a NIE. Such funding is provided based on the submission of a project or programme concept. Small-size projects and programmes follow a one-step *approval process* by the Board (submission of a fully developed project/programme document that is ready for financial closure prior to implementation). Regular projects and programmes follow a two-step approval process.

Funding is provided on full *adaptation cost* basis. Full cost of adaptation means the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change. The AF will finance projects and programmes whose principal and explicit aim is to adapt and increase climate resilience. The project or programme proponents have to provide justification of the extent to which the project contributes to adaptation and climate resilience. There is no requirement for *co-financing*.

Countries can pursue programmatic approaches under the AF. The AF defines an adaptation programme as a process, a plan, or an approach for addressing climate change impacts that is broader than the scope of an individual project.[33]

<u>Green Climate Fund</u>

The Green Climate Fund (GCF) was established in 2010 as an operating entity of the financial mechanism of the Convention under Article 11 … to support projects, programmes, policies and other activities in developing country Parties, using thematic funding windows (decision 1/CP.16, paragraph 102). The Fund will provide separate resources for readiness and preparatory activities and technical assistance, such as for the preparation of NAPs and NAPAs. However, instead of being part of predefined phases for a particular programme, these activities are rather general preparatory activities for in-country institutional strengthening, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.[34]

The Fund will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation, technology development and transfer, capacity-building and the preparation of national reports by developing countries.[35] Financial instruments of the Fund in the form of grants and concessional loans will include a grant element tailored to the identifiable additional costs or the risk premium required, in order to make activities viable.[36]

Allocation of resources will be balanced between adaptation and mitigation activities, guided by a results-based approach and appropriate geographical balance. Resources for adaptation will be allocated taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries, as appropriate.[37]

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[33] Adaptation Fund, 2013. Operational policies and guidelines for Parties to access resources from the Adaptation Fund. Available at <www.adaptation-fund.org/sites/default/files/OPG%20amended%20in%20November%202013.pdf>.

[34] Green Climate Fund. 2011. Governing instrument for the GCF. Available at <gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf>.

[35] Green Climate Fund. 2011. Governing instrument for the GCF. Available at <gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf>.

[36] Green Climate Fund. 2013. Business Model Framework: Terms and Criteria for Grants and Concessional Loans. Available at <gcfund.net/fileadmin/00_customer/documents/pdf/ GCF_06_Financial_terms_and_conditions_fin_20140206.pdf>.

[37] Green Climate Fund. 2011. Governing instrument for the GCF. Available at <gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf>. Note that the GCF Board at its sixth meeting agreed to aim for a floor of 50 percent of the

The GCF Board initiated consideration of the GCF's results management framework and adopted initial result areas and initial performance indicators, including for adaptation.[38] At its most recent meeting (19-21 February 2014), the GCF Board considered additional result areas and indicators for adaptation activities. The Board is expected to finalize the results management framework, including results areas and associated indicators, in the course of 2014 so as to enable the disbursement of funds.[39]

The Governing Instrument of the GCF established that the Fund's resources can be deployed not just for individual projects but also through *programmatic approaches*. The use of a programmatic approach aims to facilitate the scale of action to achieve transformational impact. This is coupled with efforts to reduce transaction costs. Support for programmes and projects could be coupled with technical assistance and strengthening of capacities for country coordination to build enabling environments that can catalyze both public and private climate finance at scale and achieve transformational impacts. Achieving a paradigm shift will involve investing in capability to design and implement broad systemic change, as well as investing in readiness for transformational change leading to greater resilience and lower emission economies.[40]

6.2 Outside the Convention

Pilot Programme for Climate Resilience

The Pilot Programme for Climate Resilience (PPCR) was established in 2009 under the Climate Investment Funds which are managed by the World Bank. It funds technical assistance and investments to support efforts of nine pilot countries and two pilot regions to integrate climate risk and resilience into core development planning and implementation.[41] The programme is implemented through multilateral development banks (MDBs) and focusses on LDCs and Small Island Developing States (SIDS).

In the initial phase of the programme (over a period of 3–18 months) countries develop a Strategic Program for Climate Resilience (SPCR) which outlines an underlying investment programme each country. The initial phase is funded through PPCR grants without requiring co-financing.

The SPCR may comprise technical assistance and investment components. It is designed based on the country context and could be focused on one to three sectors or themes, or could be focused on a key sub-region of the country. Its implementation is the key feature of the PPCR. As the PPCR is designed to integrate climate resilience into development plans, funded actions should not be stand-alone activities but adopt a programmatic approach. The PPCR aims at bringing together the financial resources and instruments to support such an approach through the blending of where PPCR funds are blended with MDB resources and/or other parallel and co-financing, including government and/or private sector resources.[42]

The role of the PPCR funds is thereby to cover the additional costs necessary to make a development activity resilient to the impacts of climate change, to incentivize scaled-up action

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adaptation allocation for particularly vulnerable countries, including LDCs, SIDS and African States. See <gcfund.net/fileadmin/00_customer/documents/pdf/GCF_Press_Release_fin_20140222.pdf>.

38 See the Report of the fifth meeting <gcfund.net/fileadmin/00_customer/documents/pdf/Report_of_the_Fifth_Meeting_of_the_Board__8-10_October_2013.pdf>.

39 See <gcfund.net/fileadmin/00_customer/documents/ pdf/GCF_B06__Additional_Adaptation_Areas_fin_20140209.pdf>.

40 Green Climate Fund. 2013. Business Model Framework: Financial instruments. Available at <www.gcfund.net/fileadmin/00_customer/documents/pdf/B-04_06_BMF_Financial_Instruments_10Jun13.pdf>.

41 <www.climateinvestmentfunds.org/cif/Pilot_Program_for_Climate_Resilience>.

42 Climate Investment Funds. 2009. Programming and financing modalities for the SCF targeted program, the pilot program for climate resilience (PPCR). Available at <www.climateinvestmentfunds.org/cif/ sites/climateinvestmentfunds.org/files/PPCR_Programming_and_Financing_Modalities.pdf>.

and to initiate transformational change. The additional costs are in essence defined as those that are required to remove climate-related financial and institutional barriers to investment.[43]

Financial instruments to support the programmatic approach include budget support/ development policy lending, coordinated investment programs across key sectors, and blending with national financing and/or existing international support mechanisms targeted at the public and/or private sector, which may for example, include credit lines and partnerships with financial intermediaries, guarantees, and equity based operations.[44] The SPCR defines the programme for this broad-based strategy.

The table below depicts the allocation of resources between the two phases:

Type	**Phase**	**Ceiling**
Grant	Phase 1 (developing the SPCR)	USD 1.5 million for single pilot countries (pilot regions may request additional finance)
Grant	Between phase 1 and 2 (grant for detailed preparation of activities in the SPCR such as feasibility studies)	No cap, amount included within the envelope requested for the SPCR
Grants (for the additional costs of making an operation resilient) and highly-concessional loans (equal or more concessional than IDA terms)	Phases 1 and 2 (overall funding available for each pilot)	Average: USD 30–60 million: Grants: approx. half available for grant-financing; each pilot should be able to access approx. 5–10% of the total grant amount available – independent of the date of the submission of the SPCR Concessional loans: due to initial uncertainty about interest in loans, ceiling was set at 20% of total amount available for each pilot

Global Climate Change Alliance

The Global Climate Change Alliance (GCCA) was launched in 2007 by the European Commission to strengthen dialogue and cooperation on climate change between the European Union (EU) and developing countries most vulnerable to climate change, in particular LDCs and SIDS. It provides technical and financial assistance for the countries to integrate climate change into their development policies and budgets, and to implement projects that address climate change on the ground, promoting climate-resilient, low-emission development.[45] It does not make a clear distinction between a preparatory and an implementation phase.

Funds are allocated based on the availability of resources and on population figures and are only distributed as grant financing. The GCCA applies a programme-based approach under which the main *financing modality* is budget support (general, or by sector). The budget support modalities explicitly promote the possibility of direct access to the funds.

The GCCA does not apply the *additional costs* principle, but instead, and in close dialogue with the recipient country, agrees on priority areas related to adaptation in which the country needs to make progress in order to receive a tranche of the allocated funds. However, given limited experience with defining adaptation-related benchmarks, initial benchmarks were rather input-oriented, and focused on e.g. (i) establishing an institutional framework at country level to deal with climate change adaptation; (ii) consolidating the knowledge base, in particular assessing the impacts on the most vulnerable sectors; (iii) comprehensively integrating adaptation into

[43] Climate Investment Funds. 2010. Pilot program on climate resilience (PPCR): financing modalities. Available at <www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Financing_Modalities_final.pdf>.

[44] Climate Investment Funds. 2009. Programming and financing modalities for the SCF targeted program, the pilot program for climate resilience (PPCR). Available at <www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_and_Financing_Modalities.pdf>.

[45] <www.gcca.eu>.

existing poverty reduction/growth strategies; and (iv) establishing the national cost of adaptation. New benchmarks will need to be developed which are able to track actual progress towards climate-resilience in different sectors.[46]

Through its focus on aid effectiveness, the GCCA encourages *co-financing*, which can be provided in various forms, with a variety of partners, ranging from national governments and regional organizations to multilateral and bilateral organizations and donors. Governments can co-finance interventions from the national budget or in kind, but this is not a precondition for receiving support.[47]

A lesson from the GCCA is that the use of budget support provides interesting prospects to improve the absorptive capacities of developing countries in the light of future increases of financial support for adaptation. A move from project specific to sector level support is expected to lead to better climate risk management and to help ensure that adaptation is integrated into a country's overall development effort. In order to prepare countries for budget support, the GCCA includes in its programming governance and fiduciary risk assessments and the strengthening of public financial management.

Africa Adaptation Programme

The Africa Adaptation Programme (AAP),[48] financed by the Government of Japan, was launched in 2008 to assist 20 countries across Africa to incorporate climate change risks and opportunities into their national development processes in order to protect development gains from climate change. It concluded in 2012. Access to funds and hence implementation of activities under the AAP was undertaken through UNDP Country Offices in partnership with host governments using the national execution modality and other partners.

The AAP was split into an inception planning process (leading into an inception workshop and the planning of the implementation phase including a timeline) and an implementation phase. *Financing modalities* included grant financing only. A total of USD 73 million was allocated for the design and implementation of national projects. Approximately USD 3 million was allocated to each country. Project designs were aligned with the five overarching outcome areas and also with specific national priorities. No *co-financing* was required. The AAP was designed to support transformational change and took a whole-of-government approach as opposed to delivering individual projects.

7. Next steps

The AC may use this background paper in its dialogue with the GEF and representatives of the AF Board, the GCF Board and the LDC Expert Group (LEG). In addition, the AC, possibly through its NAP taskforce and in collaboration with the LEG, may seek clarification on some of the issues that could challenge developing countries from accessing resources from the GEF. The AC may also follow up with the GCF Board on the GCF's proposed results management framework, results areas and indicators as they apply to adaptation finance.

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46 Commission of the European Union. 2008. Implementation framework of the GCCA. Commission staff working document. SEC(2008) 2319. Available at <www.gcca.eu/sites/default/files/GCCA/gcca_sec20082319_implementation_framework.pdf>.

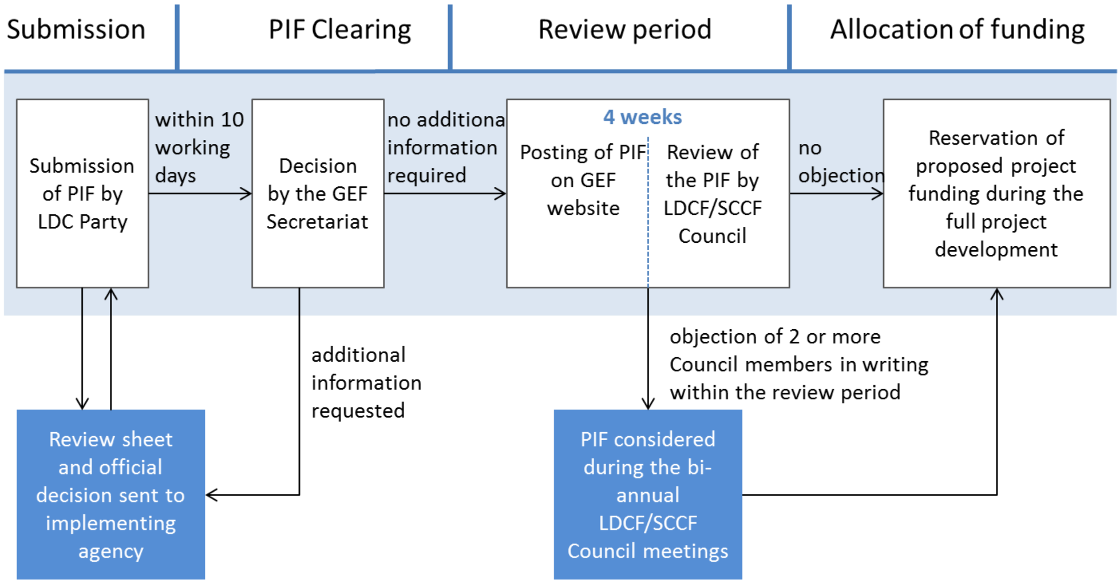
47 GCCA. 2011. Using Innovative and Effective Approaches to Deliver Climate Change Support to Developing Countries. Available at <www.gcca.eu/sites/default/files/GCCA/gcca_brochure.pdf>.

48 <www.undp-aap.org>.

Annex 1

Procedures and/or requirements for LDCs to access the LDCF to implement NAPAs

Once an LDC has completed and submitted its NAPA, the PIF submission and approval process for funding for the implementation of NAPA priorities follows the diagram below.



<u>LDCF approval criteria for project identification forms</u>[49]

Basic project idea (adaptation benefit and additional cost argument):

- What is the likely Business-as-Usual (BAU) development for the targeted sector, in the absence of climate change?
- What are the climate change vulnerabilities?
- With the LDCF investment, what are the specific adaptation activities to be implemented to increase the climate resilience of the baseline or BAU development activity?

Fit with NAPA priorities:

- Does the project respond to the highest priority/ies identified in the NAPA, and if not, why?

Implementation setup:

- Who will implement the project and why (including comparative advantage of Implementing Agency/ies)?
- Is the project being coordinated with related projects and programs to avoid duplication of activities?

Indicative budget and co-financing:

- How will the project components be weighted in terms of budget and why?
- What levels and sources of co-financing (see next section for clarification on co-financing) is the project expecting?

<u>LDCF CEO endorsement approval criteria:</u>

Project idea and additional cost argument: similar to the information provided at PIF stage, but with considerably more detail – especially in terms of specific adaptation activities for each of the project components, and how such activities will contribute to the overall objective of the project.

Implementation setup: Similar to the information provided at PIF stage, but with considerably

[49] GEF, 2011. Accessing resources under the Least Developed Countries Fund. Available at <www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf>.

more detail on the implementation and coordination arrangements.

Indicative budget and co-financing: Similar to the information provided at PIF stage, but with a detailed, itemized budget.

Letters of endorsement for all co-financing

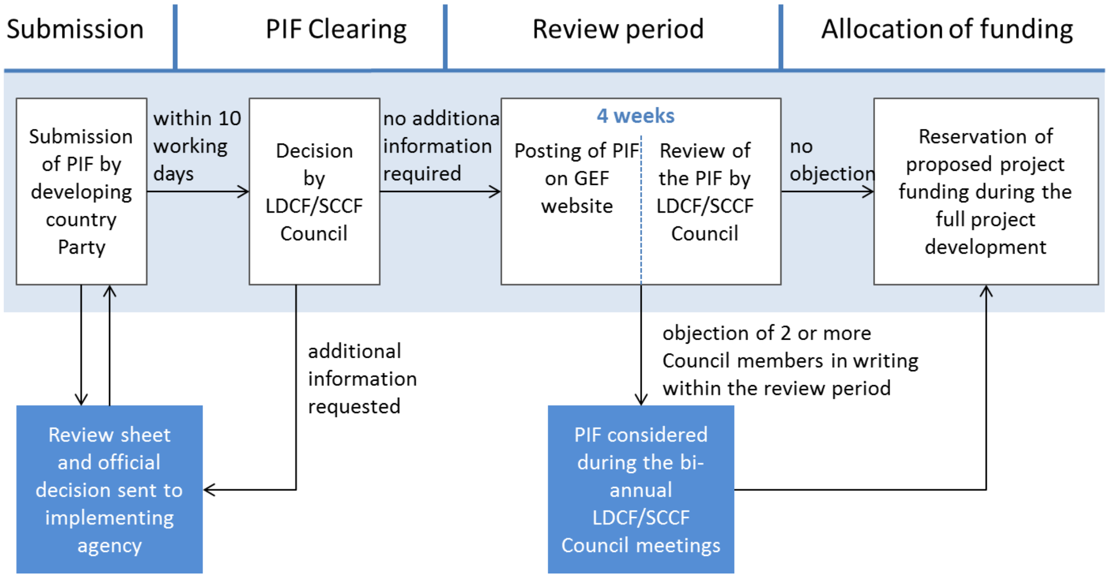
Monitoring and Evaluation (M&E) Framework:

- A clear description of the process and a timetable for the M&E process;
- A project strategic results framework identifying clear impact indicators, as well as baseline and target values, for each of the project's outcomes and outputs.

Annex 2

Procedures and/or requirements for developing countries to access the SCCF to implement adaptation activities

The diagram below shows the flow of procedures and processing for the project identification form (PIF) for SCCF projects. Note that SCCF full size projects are approved at the LDCF/SCCF Council meetings or inter-sessional Work Programs, not on a rolling basis.



<u>SCCF PIF approval criteria</u>[50]

Basic project idea (adaptation benefits and additional cost argument for adaptation projects):

- What is the likely Business-as-Usual (BAU) development for the targeted sector, in the absence of climate change?
- What are the climate change vulnerabilities?
- With the SCCF investment, what are the specific adaptation activities to be implemented to increase the climate resilience of the baseline or BAU development activity?

Fit with countries' priorities:

- Does the project respond to the priorities identified in the National Communications and national and regional programs, plans such as NAPAs in the case of LDCs, and technology needs assessments, if applicable?

Implementation setup:

- Who will implement the project and why (including comparative advantage of Implementing Agency/ies)?
- Is the project being coordinated with related projects and programs to avoid duplication of activities?

Indicative budget and co-financing:

- How will the project components be weighted in terms of budget and why?
- What levels and sources of co-financing (see next section for clarification on co-financing) is the project expecting?

<u>SCCF CEO endorsement approval criteria:</u>

Project idea and additional cost argument: similar to the information provided at PIF stage, but

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[50] GEF, 2011. Accessing resources under the Special Climate Change Fund. Available at <www.thegef.org/gef/sites/thegef.org/files/publication/23470_SCCF.pdf>.

with considerably more detail – especially in terms of specific adaptation activities for each of the project components, and how such activities will contribute to the overall objective of the project.

Implementation setup: Similar to the information provided at PIF stage, but with considerably more detail on the implementation and coordination arrangements.

Indicative budget and co-financing: Similar to the information provided at PIF stage, but with a detailed, itemized budget. Letters of confirmation for all co-financing.

M&E Framework:

- A clear description of the process and a timetable for the M&E process;
- A project strategic results framework identifying clear impact indicators, as well as baseline and target values, for each of the project's outcomes and outputs.