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Review of implementation of commitments
and of other provisions of the Convention
Financial mechanism of the Convention

**Report of the Global Environment Facility to
the Conference of the Parties**

Note by the secretariat*

1. The Conference of the Parties (COP), by its decision 12/CP.2, adopted and thereby brought into force a Memorandum of Understanding (MOU) between the COP and the Council of the Global Environment Facility (GEF) (FCCC/CP/1996/15/Add.1). The MOU provides, inter alia, that annual reports of the GEF be made available to the COP through the secretariat.
2. In response to that provision, the GEF secretariat has submitted the attached report dated 7 October 2004; it is reproduced here as submitted, without formal editing, and with the original pagination.
3. The MOU also provides that, the COP will, pursuant to Article 11.1, decide on policies, programme priorities and eligibility criteria relating to the Convention for the financial mechanism which shall function under the guidance of and be accountable to the COP.
4. The MOU further stipulates that the COP will, after each of its sessions, communicate to the Council of the GEF any policy guidance approved by the COP concerning the financial mechanism.

* This document is submitted late because of the need to undertake extensive internal and external consultations.



Global Environment Facility

October 7, 2004

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REPORT OF THE GEF TO THE TENTH SESSION OF THE CONFERENCE OF THE PARTIES TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

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I. INTRODUCTION

1. This report has been prepared for the tenth session of the Conference of the Parties to the UN Framework Convention on Climate Change. It covers the period from July 1, 2003 to June 30, 2004. This report describes major GEF activities during the reporting period in the area covered by the Convention.

2. The Parties' attention is also drawn to the following GEF publications and documents which the GEF will make available to the tenth session of the Conference of the Parties. They are also available on the GEF web site www.theGEF.org :

- (a) GEF Annual Report 2003, A Year of Renewed Commitment to Sustaining the Earth (available in English, French, and Spanish);
- (b) Project Performance Report 2003;
- (c) Climate Change Program Study;
- (d) GEF Global Action on Renewable Energy;
- (e) Review of GEF Engagement with the Private Sector Final Report, April, 2004; and
- (f) Operational Report on GEF Projects, 2004.

II PROJECT ACTIVITIES IN THE CLIMATE CHANGE AREA

3. The GEF, as an operating entity of the financial mechanism of the Convention, provides financing to country driven projects consistent with guidance approved by the Conference of the Parties on policies, program priorities and eligibility. GEF-financed projects are mainly managed through its Implementing Agencies: UNDP, UNEP and the World Bank. Information on all GEF projects is available at the GEF web (www.theGEF.org) under Project Data and Documents.

4. As of June 2004, the GEF has committed approximately US\$ 1.8 billion in grants for climate change projects out of a total of US\$ 5 billion allocated to all focal areas. It has leveraged more than US\$ 9.5 billion in co-financing for climate change projects¹.

5. In the reporting period, a total of 236 projects were approved by the GEF in the area of climate change. Table 1 provides a breakdown of those projects by project type. Tables 2 – 5 provide more information on the projects, while Annex A includes a summary of the objectives and activities of each full sized and medium-sized project approved during the reporting period.

¹ The figures provided in this paragraph do not include financing of multi-focal areas projects.

Table 1. Projects approved in the Climate Change Area during the reporting period for financing from the GEF Trust Fund

Type of activity	Number of activities	GEF financing (in US\$ millions)	Co-financing (in US\$ millions)	Total financing (in US\$ millions)
Full projects ²	16	143.56	427.54	571.10
Medium-sized projects	6	5.48	29.06	34.54
Enabling activities: -first national communications (phase II)	7	0.69		0.69
-second or further communications	1	58.49	1.54	60.03
Small Grants Programme ³	192	4.49	3.07	7.56
Project preparation ⁴	14	4.31		4.31
Total	236	217.02	461.21	678.23

6. As indicated in Table 1, the GEF allocation during the reporting period in the area of climate change was US\$217 million in financing out of total project costs of US\$ 678 million. More than US\$461 million was leveraged in co-financing for the project activities from the Implementing Agencies, Executing Agencies, bilateral agencies, recipient countries, and the private sector.

7. Among the 16 approved full-sized projects, 6 projects address issues related to removal of barriers to energy efficiency and energy conservation under GEF's operational program number 5 (OP5); 9 projects aim to promote the adoption of renewable energy under OP6; and 1 project will contribute to reducing the long-term costs of low greenhouse gas emitting energy technologies under OP7.

² Two projects will be circulated for review by Council Members prior to CEO endorsement. If at least four Council Members express concerns to the CEO, these projects will be reviewed by a Council meeting in accordance with the established GEF procedures.

³ The Small Grants Programme is a multi-focal area program. The reporting focuses on its projects in the climate change area during the reporting period.

⁴ Often, as a first step in project development, the GEF provides financing to assist recipient countries to develop a project concept into a project proposal.

Table 2. Full-sized Projects

Country	Project Name	Implementing Agency	GEF Financing (in US\$ millions)	Total Financing (in US\$ millions)
Global (Brazil, Bangladesh, Chile, Egypt, India, Mexico, Philippines, South Africa, Trinidad and Tobago)	Fuel Cells Financing Initiative for Distributed Generation Applications**	World Bank/IFC	9.85	18.85
Botswana	Renewable Energy-Based Rural Electrification Programme	UNDP	3.31	8.69
Bulgaria*	Energy Efficiency Project	World Bank	10.30	49.81
China	Heat Reform and Building Energy Efficiency Project	World Bank	18.35	99.35
Cuba	Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the case of Isla de la Juventud	UNEP	5.66	16.17
Egypt	Solar Thermal Hybrid Project**	World Bank	50.85	148.05
Eritrea	Wind Energy Applications	UNDP	2.27	5.26
Lesotho	Renewable Energy-based Rural Electrification	UNDP	2.72	6.98
Malaysia	Building Integrated Photovoltaic (BIPV) Technology Application Project	UNDP	4.83	25.22
Pakistan	Sustainable Development of Utility-Scale Wind Power Production (Phase 1)	UNDP	3.47	4.19
Philippines	Efficient Lighting Market Transformation Project	UNDP	3.23	15.25
Swaziland	Energizing Rural Transformation	World Bank	3.10	11.70
Tunisia	Development of On-Grid Wind Electricity in Tunisia for the 10th Plan	UNDP	10.53	106.26
Tunisia	Development of an Energy Efficiency Program for the Industrial Sector for Tunisia	World Bank	8.50	31.80
Vietnam	Energy Efficiency Public Lighting (VEEPL) Project	UNDP	3.31	15.69
Zambia	Renewable Energy-based Electricity Generation for Isolated Mini-grids	UNEP	3.28	7.83
Total			143.56	571.10

* Annex I countries.

** Two projects will be circulated for review by Council Members prior to CEO endorsement. If at least four Council Members express concerns to the CEO, these projects will be reviewed by a Council meeting in accordance with the established GEF procedures.

8. Table 3 lists 6 medium-sized projects approved in the reporting period. Three projects assist countries in removing barriers to energy efficiency and energy conservation under OP5, two aim to promote the adoption of renewable energy under OP6, and one addresses sustainable transport under OP11.

Table 3. Medium-sized Projects

Country	Project Name	Implementing Agency	GEF Financing (in US\$ millions)	Total Financing (in US\$ millions)
Global (Costa Rica, India, Iran, Morocco, Nepal, Peru, Philippines, Sri Lanka, Swaziland, Venezuela,)	Development of a Strategic Market Intervention Approach for Grid-Connected Solar Energy Technologies (EMPower)	UNEP	1.00	1.00
Honduras	Energy Efficiency Measures in the Honduran Commercial and Industry Sectors	UNDP	1.00	2.64
India	Electric 3-Wheeler Market Launch Phase	UNDP	1.00	3.26
Maldives	Renewable Energy Technology Development and Application Project (RETDAP)	UNDP	0.75	2.76
Poland*	Demand-side Energy Efficiency in Public Buildings, Lodz Municipal Energy Services Company	World Bank/EBRD	1.00	24.00
Russian Federation*	Developing the Legal and Regulatory Framework for Wind Power in Russia	World Bank/IFC	0.73	0.88
Total			5.48	34.54

*Annex I countries

9. Table 4 lists 8 enabling activity projects approved during the reporting period. One global project *National Communications Program for Climate Change* will assist non-Annex I countries to prepare their second or further national communications. Seven projects provide additional financing for capacity building related to the first national communication. The additional financing is to help non-Annex I countries build/strengthen the capacity to identify and assess technology needs, participate in systematic observation networks and prepare programs to address climate change.

10. As of June 2004, the GEF support to 132 non-Annex I countries⁵ for preparing their first national communications and additional financing for capacity building in priority areas totaled US\$ 31.63 million. In addition, the GEF provided US\$ 39.14 million in financing to a number of regional and global projects to assist or partially assist countries in preparing their first national communications. A table listing GEF support to countries for first national

⁵ The GEF supported, by exceptional circumstances, initial national communications for three countries with economies in transition and Annex I Parties: Belarus (\$0.31million), Croatia (\$0.44 million), and Slovenia (\$0.44 million).

communications, additional financing for capacity building in priority areas, and relevant regional and global projects is attached as Annex B.

11. With the start of the implementation of the *National Communication Program for Climate Change*, the GEF reporting on assistance for national communications will be focused on second and further national communications.

Table 4. Enabling Activities

Country	Project Name	Implementing Agency	GEF Financing (in US\$ millions)	Total financing (in US\$ millions)
Global	National Communications Program for Climate Change	UNDP/UNEP	58.49	60.03
Comoros	Expedited Financing for (Interim) Measures for Capacity Building in Priority Areas (Phase II)	UNEP	0.10	
Congo DR	Climate Change Enabling Activity (Additional Financing for Capacity Building in Priority Areas)	UNDP	0.10	
Malta	Expedited Financing of Climate Change Enabling Activities (Phase II)	UNDP	0.09	
Pakistan	Expedited Financing for Interim Measures for Capacity Building in Priority Areas (Phase II)	UNEP	0.10	
Tanzania	Expedited Financing for (Interim) Measures for Capacity Building in Priority Areas (Phase II)	UNEP	0.10	
Tonga	Climate Change Enabling Activity (Additional Financing for Capacity Building in Priority Areas)	UNDP	0.10	
Vietnam	Expedited Financing for Interim Measures for Capacity Building in Priority Areas (Phase II)	UNEP	0.10	
Total			59.18	60.72

12. Often, as a first step in project development, the GEF provides financing to assist recipient countries to develop a project concept into a project proposal. Fourteen project preparation grants were approved during the reporting period.

Table 5. Project Preparation Activities

Country	Project Name	Implementing Agency	GEF Financing (in US\$ millions)
Regional (Cameroon, Central African Republic, Congo DR, Mali)	First Regional Micro/Mini-Hydropower Capacity Development Project and Investment in Rural Electricity	UNDP	0.32
Regional (Dominica, St. Kitts and Nevis, St. Lucia)	Eastern Caribbean Geothermal Development Project	UNEP	0.70
Regional (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama)	Regional Program on Electrical Energy Efficiency in Industrial and Commercial Service Sectors in 7 Countries in Central America	UNDP	0.35
Algeria	Development of an Energy Efficiency Market in the Industrial Sector - Algeria	World Bank	0.35
Armenia	Renewable Resource Revolving Fund	World Bank	0.25
Bangladesh	Improving Kiln Efficiency in the Brick Making Industry in Bangladesh	UNDP	0.35
Belarus*	Removing Barriers to Energy Efficiency Improvements in the State Sector in Belarus	UNDP	0.19
Honduras	Rural Infrastructure (Electrification Component)	World Bank	0.35
Indonesia	Integrated Microhydro Development and Application (IMIDAP)	UNDP	0.12
Iran	Industrial Energy Efficiency Improvement	UNDP	0.20
Lao PDR	Southern Provinces Rural Electrification (SPRE) II - Renewable Off-Grid Electrification and Urban Energy Efficiency/ DSM	World Bank	0.33
Mauritania	ADRAR Solar Initiative and Decentralized Electrification in the Northern Coastline of Mauritania through Hybrid (Wind/Diesel) Systems	UNDP	0.10
Russian Federation*	Renewable Energy Program (RREP)	World Bank	0.35
The F.Y.R. of Macedonia	Sustainable Energy Program	World Bank	0.35
Total			4.31

*Annex I countries

13. During the reporting period, the Small Grants Programme (SGP) supported 192 community-based climate change projects totaling some \$4.49 million in GEF financing, in addition to \$3.07 million in co-financing (\$1.54 million in cash, and \$1.53 million in-kind). Among these projects, 43 projects (22%) addressed issues related to removal of barriers to energy efficiency and energy conservation under OP5, 85 projects (44%) addressed issues related to promoting the adoption of renewable energy under OP6, while 10 projects (5%) addressed issues related to sustainable transport under OP11. The remaining grants disbursed (29%) addressed multi-operational program areas with cross-cutting issues related to climate change.

14. It should also be noted that GEF resources provided through other focal areas (biodiversity, land degradation, ozone, persistent organic pollutants, and international waters)

often have cross-cutting benefits supportive of the objectives of the UN Framework Convention on Climate Change through the development of human resources and institutions, as well as through activities supporting a range of global environmental goals including carbon sequestration.

III. OTHER ACTIVITIES IN RESPONSE TO CONVENTION GUIDANCE

15. Five decisions relevant to the GEF were adopted by the ninth session of the Conference of the Parties (COP9). The decision on the GEF report welcomes and notes the activities highlighted in the report. The strategic priorities on capacity building and piloting an operational approach to adaptation approved by the Council received positive feedback by the Parties to the Convention.

16. Guidance provided by COP9 to the GEF has been compiled in decision 4/CP.9 *Additional guidance to an operating entity of the financial mechanism*. It includes guidance on national communications, capacity building, strategic priority on adaptation, transfer of technology, education, training and public awareness, and global observing systems for climate change. To address the additional guidance, the GEF Secretariat and the Implementing Agencies reviewed current practices and considered whether new measures would be needed to ensure that the guidance was implemented. On-going approaches to other issues identified in the guidance will be continued and strengthened where necessary in response to country driven requests for projects.

17. The GEF has consistently strived to implement Convention guidance of the Conference of the Parties. Previous GEF reports to the Conference of the Parties have reported on these efforts (a list of GEF reports previously submitted to the Conference of the Parties is included in Annex C.) In addition to approval of GEF project activities in the climate change area, other activities undertaken during the reporting period responsive to earlier guidance as well as guidance contained in the relevant decisions adopted by the Conference of the Parties at its ninth session include measures to address national communications, climate change funds, capacity building, implementation of operational approach to adaptation, and other matters.

National communications

18. The Conference of the Parties at its ninth session requested the GEF to closely monitor the performance of the global project to support the preparation of national communications and to provide finance 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.⁶

19. *Operational Procedures for the Expedited Financing of National Communications from Non-Annex I Parties* (GEF/C.22/Inf.16) have been circulated in November 2003 after the Council approved expedited support for second national communications in May 2003. In order to further streamline the approval process for individual projects under expedited procedures, the project entitled *National Communications Program for Climate Change*

⁶ Decision 4/CP.9.

(thereafter referred to as National Communications Program) was approved by the Council in November 2003. Under this program, UNDP and UNEP are authorized to approve projects that are in conformity with the operational procedures. Funds were approved for expedited financing to up to 130 countries. It is forecast that approximately 100 countries will work with UNDP and 30 will work with UNEP. This forecast is based on experience and operations in assisting countries to prepare their first national communications. For countries wishing to work with the World Bank through expedited procedures, a similar programmatic approach may be approved by the Council.

20. On the basis of experience in assisting countries to prepare first national communications, a technical support program (the National Communication Support Program (NCSP) has also been approved, with the objective of assisting all recipient countries. Throughout the support program, feedback from the countries will be solicited so that the program can target its service in countries with implementation difficulties and improve its responsiveness to country needs.

21. This global project provides for monitoring of the implementation of the project through a number of institutional arrangements. The program's *Advisory Committee* focuses on co-ordination issues. The Committee meets at regular intervals to keep fully apprised of the implementation of the program and to ensure that the implementation of the project is consistent with the guidance provided by the Conference of the Parties and that finance is provided in a timely manner for the preparation of national communication by non-Annex I Parties. Each Implementing Agency and the Convention Secretariat are represented on the committee. Each agency will be requested to provide a full status report of the progress of the enabling activities it is managing. In particular, agencies are requested to report on difficulties arising from implementation of GEF projects in countries, experiences of monitoring and evaluation, and progress on capacity building and mainstreaming. The committee annually reviews activities of the Support Program taking into account country feedback. The Chair of the Consultative Group of Experts (CGE) in an ex-officio capacity will report to this Committee on the activities of the Consultative Group of Experts on non-Annex I National Communications to ensure full co-ordination and non-duplication of activities. This is in line with the conclusions of SBI 20 that called on the CGE to interact more closely with the NCSP and avoid duplication of efforts.

22. The *Project Implementation Committee* (UNDP, UNEP, World Bank) is responsible for reviewing management of technical issues. It meets every month through teleconference to ensure that close collaboration takes place between the Implementing Agencies for all activities, including issues related to the preparation of national communications by non-Annex I countries whose projects are not covered by the National Communication Program.

Climate change funds

23. The Conference of the Parties at its ninth session also adopted decisions on the new climate change funds: Decisions 6/CP.9 *Further guidance for the operation of the Least Developed Countries Fund*; and 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 Secretariat, the Implementing Agencies and the Convention Secretariat are collaborating on how best to respond to the guidance on the new funds.

LDC Trust Fund

24. From November 6, 2002, to June 2004, total contributions for the LDC Trust Fund amount to US\$ 16.5 million, received by the Trustee from Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, and Switzerland.

25. Projects for the preparation of National Adaptation Programs of Action (NAPAs) in 43 countries have been approved (see table 6) as of June 2004. The total approved resources for 43 national NAPAs and two global support projects are US\$ 9.4 million.⁷

Table 6. Financing for the Preparation of NAPAs

	Country	Implementing Agency	Amount Approved in US\$	Date of CEO Approval
1	Afghanistan	UNEP	200,000	5/14/2004
2	Bangladesh	UNDP	200,000	4/17/2003
3	Benin	UNDP	200,000	3/5/2004
4	Bhutan	UNDP	199,000	10/14/2003
5	Burkina Faso	UNDP	200,000	7/17/2003
6	Burundi	UNDP	200,000	5/14/2004
7	Cambodia	UNDP	199,500	12/17/2002
8	Cape Verde	UNDP	200,000	10/10/2003
9	Central African Republic	UNEP	200,000	1/23/2004
10	Chad	UNDP	200,000	4/5/2004
11	Comoros	UNEP	200,000	6/27/2003
12	Congo DR	UNDP	200,000	12/11/2003
13	Djibouti	UNEP	200,000	8/11/2003
14	Eritrea	UNDP	200,000	12/18/2002
15	Ethiopia	UNDP	200,000	4/7/2003
16	Gambia	UNEP	198,100	7/25/2003
17	Guinea	UNDP	200,000	11/3/2003
18	Guinea-Bissau	UNDP	200,000	5/14/2004
19	Haiti	UNEP	198,665	1/27/2003
20	Kiribati	UNDP	200,000	10/27/2003
21	Lao PDR	UNDP	200,000	7/30/2003
22	Lesotho	UNEP	190,000	2/19/2003
23	Liberia	UNEP	200,000	12/22/2003
24	Madagascar	World Bank	200,000	5/14/2004
25	Malawi	UNDP	200,000	3/21/2003
26	Maldives	UNDP	200,000	10/22/2003
27	Mali	UNDP	200,000	12/11/2003
28	Mauritania	UNEP	198,000	1/23/2003
29	Mozambique	UNDP	200,000	4/23/2003
30	Niger	UNDP	200,000	3/31/2004
31	Rwanda	UNEP	195,000	6/9/2004
32	Samoa	UNDP	200,000	12/17/2002
33	Sao Tome and Principe	World Bank	200,000	3/29/2004
34	Senegal	UNEP	195,000	10/22/2003
35	Sierra Leone	UNDP	200,000	4/12/2004
36	Sudan	UNDP	200,000	4/17/2003
37	Tanzania	UNEP	200,000	3/21/2003

⁷ The number does not include 11% fees for the Implementing Agencies.

38	Togo	UNDP	200,000	3/18/2004
39	Tuvalu	UNDP	200,000	2/12/2003
40	Uganda	UNEP	199,790	7/15/2003
41	Vanuatu	UNDP	200,000	4/7/2003
42	Yemen	UNDP	200,000	1/16/2003
43	Zambia	UNDP	197,500	12/5/2003
	Global	UNDP	633,538	4/16/2003
	Global	UNDP	211,126	9/2/2003
Total			9,415,219	

26. Among the 48 Least Developed Countries Parties to the UNFCCC, five (Angola, Equatorial Guinea, Myanmar, Nepal, and Solomon Islands) have yet to receive financing for the preparation of NAPAs. Solomon Islands is currently working with UNDP, in consultation with UNEP, to prepare a project proposal. UNEP is also working with Myanmar and Nepal to prepare their project proposals. UNDP and UNEP have agreed to consult in order to initiate work with Angola and Equatorial Guinea on developing their project proposals.

27. Most of the approved projects foresee the completion of the NAPA within a period of 12 to 18 months. It is expected that the first NAPAs will be completed in the first three months in 2005.⁸ The decision of the COP requests Parties to make completed NAPAs available to the GEF and to the Convention Secretariat for further dissemination to the Parties to the Convention. At the request of the Chair of the LDC Expert Group,⁹ the approved project documents to provide assistance for the operation of NAPAs are now posted on the GEF website: www.theGEF.org.

28. The GEF is preparing proposals to take into account the elements listed in decision 6/CP.9 when financing the implementation of NAPAs. These proposals will be presented to the Council for information at its meeting in November 2004 and will also be made available to the tenth session of the Conference of the Parties.

Special Climate Change Fund

29. The decision of the Conference of the Parties on the operation of the Special Climate Change Fund (SCCF) provides guidance to the GEF on the type of activities to be funded under the SCCF. In particular, the guidance provides that the fund should support activities related to adaptation and technology transfer.¹⁰ The GEF was invited to make the necessary arrangements to mobilize resources to make the fund operational without delay.

30. For purposes of making the fund operational a number of meetings were scheduled in 2004 to discuss programming for the SCCF and mobilization of resources for the Fund. Two

⁸ UNDP's rough estimation of completion date is early 2005 for the following countries: Bangladesh, Cambodia, Eritrea, Ethiopia, Malawi, Mozambique, Samoa, Sudan, Tuvalu and Yemen.

⁹ This initiative came to respond to the outcome of the LDC Expert Group (LEG) in Mozambique, March 22-24, 2004, which requested the GEF to provide the LEG with access to approved NAPA project documents which could be used as input to activities envisaged in the group's work program of the current biennium.

¹⁰ The decision also provides that activities under paragraph 2(c) and (d) in decision 7/CP.7 are also to be funded by the Special Climate Change Fund and to this effect invites Parties to submit to the Secretariat, by September 15, 2004, further views on activities, programs and measures in these areas, for further consideration by the Subsidiary Body for Implementation, at its twenty-first session, in order for the Conference of the Parties to take a decision on this matter at its tenth session.

meetings were held at the World Bank Conference Center in Paris on July 1, 2004, and September 29, 2004. A meeting at which donors will be invited to make pledges to the SCCF will be convened in Washington on November 15.

31. The GEF will submit a programming document for the SCCF to the Council for endorsement at its meeting in November 2004, together with information on the resources initially mobilized for the fund. This report will also be available at the tenth session of the Conference of the Parties. It is expected that the fund will begin to finance projects in 2005.

Capacity building

32. The Conference of the Parties at its ninth session requested the GEF to include in its report to the tenth session "Information on the implementation of the strategic approach to enhancing capacity building in response to decision 2/CP.7 and 3/CP.7.", and "Information on its support for the implementation of the framework for meaningful and effective actions to enhance the implementation of Article 4, paragraph 5 of the Convention."

33. 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 US\$ 1.46 billion as of June 2002. The important role the GEF plays in the area of capacity building was recognized by the Conference of the Parties¹¹. It is also recognized that the GEF is not the only source to support countries' capacity building to implement the UNFCCC. A more comprehensive report on GEF support for capacity building will be disseminated separately at the tenth session of the Conference of the Parties. The current section focuses on the new GEF strategic approach to enhance capacity building and the implementation of this approach based on GEF projects approved during the reporting period.

GEF Strategic approach to enhance capacity building

34. With a view to preparing a comprehensive approach for developing the capacities needed at the country level to meet the challenges of global environmental action, the GEF Secretariat and UNDP managed the Capacity Development Initiative (CDI) in 2000 and 2001. The CDI was undertaken to: (i) make a broad assessment of capacity building needs of developing countries and countries with economies in transition; (ii) take stock of earlier and ongoing efforts to assist national capacity building; and (iii) prepare a strategy as a basis for strengthening the GEF portfolio. The results of the CDI were, at each stage, shared with the Parties to UNFCCC.

35. To further respond to requests from the conventions, including the capacity building framework contained in Decisions 2/CP.7 and 3/CP.7 and based on the CDI results, the GEF Council approved a Strategic Approach to Enhanced Capacity Building in November 2003.¹² The Strategic Approach proposed that resources be channeled through the following pathways: 1) national capacity self-assessments, 2) strengthening the capacity building components of GEF projects, 3) targeted capacity building projects within focal areas, and 4)

¹¹ See Decision 10/CP.5, *Capacity-building in developing countries (non-Annex I Parties)*.

¹² See document GEF/C.22.8, October 17, 2003.

activities to critical crosscutting capacity building needs, especially for Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

36. The proposed pathways are intended to complement each other and should together be able to cover capacity building at systemic, institutional, and individual levels for both non-Annex I countries and economies in transition and thus contribute directly and indirectly to the implementation of the capacity building framework of the UNFCCC. The GEF business plan for 2005-2007 identified capacity building as a strategic priority of the GEF within each of the focal areas as well as an additional cross cutting priority and anticipated resources to support capacity building in countries.

37. Specific pathways under the Strategic Approach to Enhanced Capacity Building include:

National capacity needs self assessments

38. The first pathway, the preparation of national capacity self assessments (NCSAs), became operational in September 2001. Under an NCSA, funding is provided to assist countries to prepare self assessments of their capacity needs and priorities to manage global environmental issues. Once countries assess their capacity building needs, they are encouraged to develop a plan of action for addressing these needs. NCSAs are intended to be entirely country driven, undertaken in accordance with country priorities and circumstances. As of June 30, 2004, 99 countries have launched NCSA projects and 28 countries have PDF A project financing (\$50,000) to prepare their NCSA project proposal.

Enhanced attention to capacity building components in GEF projects

39. A review undertaken by the GEF Implementing Agencies to assess the role of capacity building in GEF projects found that 96 % of the UNDP projects, 100 % of the UNEP projects and 86 % of the World Bank projects have capacity development components even though capacity building was not the principal objective of the projects. With the approved Strategic Approach, this will continue to be the principal pathway for addressing country capacity building needs identified through the NCSAs and other nationally undertaken processes. In general, capacity building to achieve the objectives of the GEF's strategic priorities, particularly with respect to mainstreaming the global environment in sectoral policies and national sustainable development planning, will be achieved through this pathway. Best practice and case studies based on the experience of the GEF and others will be important to improve this process in a major way.

Targeted capacity building within a focal area

40. In addition to capacity building through projects that address the GEF's focal area strategic priorities, the GEF would establish a new pathway that will finance focal area specific, free-standing capacity building projects that address national priorities and are responsive to the guidance and decisions of the relevant Conventions. Before any such projects are undertaken, it will be ensured that the proposed activities cannot in fact be included in investment projects addressing the focal area strategic priorities. These projects will seek to build capacity as an end product, which in turn is expected to stimulate a broad based impact on global environmental management.

Targeted capacity building across focal areas (cross-cutting)

41. This new pathway is seen as a cost effective means of addressing capacity building needs at a systemic or institutional level that are not unique to any one focal area but will assist countries to manage global environmental issues in a more general way.

Country capacity building programs for LDCs and SIDS

42. One significant finding of the CDI was the need to address critical capacity bottlenecks in the Least Developed Countries and Small Island Developing States in view of their special situation. Modeled on the GEF Small Grants Program, the idea is to provide limited financing at the country level that would be managed through a multistakeholder decision making process so as to provide flexibility and expedition to the countries decision making to agree on small amounts of targeted assistance to remove bottlenecks at the country level that inhibit good management of global environmental issues. Financing through such a mechanism should be based on identified priority needs highlighted through an NCSA or similar exercise.

Indicators

43. In addition, the development of indicators for capacity built is critical to assess the overall impact of GEF support for capacity building, and to assess the effectiveness of projects and country level programs. The GEF will work with its Monitoring and Evaluation Unit, STAP and the Implementing Agencies to develop and elaborate the indicators for program performance, but also encourage their selective and appropriate use at the project level.

Project activities to strengthen country capacity

44. In the GEF reports to the eighth and ninth sessions of the Conference of the Parties, the GEF provided detailed information on its support to capacity building, including transfer of technology, education, public awareness, and policy enabling environment in the area of climate change¹³. In addition, the following projects, approved during the reporting period, illustrate how the GEF is assisting countries to strengthen their capacity in the areas of transfer of technology, education, public awareness, and policy enabling environment. They also reflect how the GEF project review criteria have been enhanced to give capacity building a higher profile in GEF financing.

¹³ See, *Report of the Global Environment Facility to the Eighth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change* (FCCC/CP/2002/4, September 6, 2002), pages 7-9; *Report of the Global Environment Facility to the Ninth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change* (FCCC/CP/2003/3, October 27, 2003), pages 9-11. For example, the GEF report to COP8 states "Public awareness and education activities and community involvement and participation are very important elements of the GEF supported capacity building. Among the 111 enabling activity projects financed by the GEF in the area of climate change, 106 projects have public awareness components. The percentage of public awareness of the enabling activity projects for St Vincent and Grenadines and Suriname reached respectively 35% and 33%, and the average percentage for public awareness is 20% of the total GEF financing for enabling activity projects. Ten of the 14 full sized projects for enabling activities include public awareness components." (paragraph 29, page 9)

- (a) *National Communications Program for Climate Change* (UNDP and UNEP). The programme's overall goal is to provide an integrated package of support activities to facilitate implementation of the enabling activities. By doing so, it will promote integration of climate change policy into countries' national development priorities. The programme recognizes the major importance of both the UNFCCC's Capacity Building Framework and the GEF approach, and seeks to promote synergies with them. It emphasizes capacity building, knowledge sharing and monitoring of programme progress. National project activities (implemented by around 130 countries) will include: a) a stakeholder consultation to formulate the national workplans; b) stocktaking; and, c) technical assessments, workshops, and monitoring and evaluation using capacity indicators and benchmarks. Global support programme activities will include: a) technical backstopping to national teams; b) technical feedback on draft components of National Communications; c) targeted training workshops; d) creation of thematic knowledge networks; e) dissemination of information and lessons learned through website, list-serve and newsletter; and, f) an annual programme review. This project will contribute directly to education, public awareness, and policy enabling environment in the area of climate change.
- (b) A new programmatic approach *Global: Fuel Cells Financing Initiative*¹⁴ (World Bank / IFC) was launched in November 2003. This proposed program would represent a structured learning and technology transfer approach that builds on the approach for the market introduction of stationary fuel cells developed by UNEP and IFC in 2001. Fuel cells can produce electricity at higher conversion efficiencies than most other currently tested technologies. While stationary fuel cells still are not broadly disseminated in all developed countries, this project would seek to ensure that the technology will be available to interested parties in developing countries. The *Fuel Cell Financing Initiative*, through its structured capacity building and technology transfer approach, is a unique attempt at bridging technological gaps between the North and the South.
- (c) The project: *Wind Energy Applications in Eritrea* (UNDP), aims to transform the market for wind energy applications. The project will help install and operate a small wind park (750 kW) connected to the grid as well as eight decentralized wind stand-alone and wind-hybrid systems in rural villages. More importantly, however, the project will strengthen the country's capacity in terms of personnel, know-how, governmental institutions/authorities, and private companies with regard to wind energy utilization. The project thus ensures that the use of wind energy will be considered in future national electrification plans, particularly in wind-rich regions, by demonstrating it as a cost-effective electricity generation technology, which can be replicated throughout the country.
- (d) The project, *Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the case of Isla de la Juventud* (UNEP), will introduce new and innovative financial and institutional structures to encourage private investments, support economically viable, environmentally sustainable markets, and enhance local

¹⁴ This project will be circulated for review by Council Members prior to CEO endorsement. If at least four Council Members express concerns to the CEO, this project will be reviewed by a Council meeting in accordance with the established GEF procedures.

manufacturing capacity for renewable energy technologies in Cuba. The project would establish commercial business models for renewable technologies providing modern energy services on the Island and their replication in the region under similar conditions.

- (e) *Development of On-Grid Wind Electricity in Tunisia for the 10th Plan Project* (UNDP) will work together with the government to provide an enabling policy environment and smart incentives for investments into 100 MW of wind generation capacity and a prospective follow-up investment of 200 MW. The newly created policy framework will serve as the basis for the attraction of a multiple of this initial investment in latter years.
- (f) The development and deployment of new, low GHG emitting energy technologies is mostly tackled under OP7. A STAP brainstorming meeting in March 2003 developed new guidance on better ways to promote innovative low-GHG technologies.¹⁵ The project *Malaysia: Building Integrated Photovoltaic (BIPV) Technology Applications* (UNDP) operationalizes this new guidance. In this highly country-driven project, a large number of stakeholders from industry and government have joined forces with UNDP to cooperate and coordinate the systematic introduction of solar PV in urban architecture and building materials. In the course of this project, they will transfer technological as well as implementable experiences from OECD countries to Malaysia where large technological capacities are already built-up and eager to explore new markets. The Malaysian government has expressed interest to integrate BIPV into the national energy and renewable energy strategies and large regional impacts are expected. Unlike traditional OP7 approaches, this project includes only small hardware subsidies and most of the GEF contribution is expended on capacity building activities and soft approaches for technology transfer.
- (g) In the project *Botswana: Renewable Energy-Based Rural Electrification Program* (UNDP), the Government of Botswana, after thorough analysis of the local conditions, decided to test a large-scale Solar PV based strategy that is also least-cost, in order to provide this public service to 88 villages in Botswana in the next rural electrification plan. More than 5000 households will be given access to clean lighting, and more than 1000 households will be provided with the more extensive supply of electric power from a Solar Home System. Incorporating lessons learned from past projects, this project tries to bolster the process of rural electrification with a combination of interventions that improve the local technical capacities, the political framework conditions, the access to finance, and the education of consumers on the correct handling and advantages of renewable energy services. The GEF supports the necessary capacity building efforts for the renewable energy part of this rural electrification project.
- (h) The project, *Russian Federation: Developing the Legal and Regulatory Framework for Wind Power* (World Bank/IFC), will focus on actions leading to the

¹⁵ Document GEF/C.23/Inf.16, *Reducing the long-term costs of low greenhousegas-emitting energy technologies*, May 6, 2004.

implementation of a pilot 75 MW grid-connected wind power plant in Leningrad Oblast. The objective of the proposed work would be to develop a framework for large-scale wind power applications in Russia, as a model for the rest of the country. The work will create the legal and regulatory models that will help wind power to become a major clean energy resource for Russia.

Cross cutting capacity building project proposal

45. The project proposal Targeted capacity building support for the NEPAD Action Plan for the Environment is crosscutting capacity building project. It will support the capacity development initiative under the New Partnership for Africa's Development Action Plan for the Environment. As a first step, a GEF Medium Sized Project will be developed for the preparation of a coordinated implementation plan for the Action Plan together with the preparation of five sub-regional environmental action plans. The coordinated approach will build upon, and integrate, the tools already in place in the GEF for assisting countries in the African region to address global environmental issues, including:

- (a) enabling activities for purposes of the UNFCCC;
- (b) preparation and implementation of National Adaptation Programs of Action under the LDC Fund of the UNFCCC;
- (c) development of National Capacity Needs Self Assessments;
- (d) capacity building country programs for LDCs and SIDS (as foreseen in the Strategic Approach to capacity building); and
- (e) targeted capacity building in focal areas as well as crosscutting capacity building.

46. This proposed approach to providing support for capacity building under the NEPAD Action Plan, with initial support through a medium sized project, was presented to the African Ministerial Conference on the Environment (AMCEN) in June 2004 in Tripoli, Libya, as well as to the third ordinary meeting of the Assembly of the African Union. The medium sized project will include four components:

- (a) a stock taking exercise and gap analysis with participation of bilateral donors and other partners;
- (b) development of sub-regional action plans which will take into account activities identified by African Governments during the development of the NEPAD Environmental Action Plan;
- (c) integration of on-going GEF activities in a coordinated approach at the regional, subregional and national level; and
- (d) a technical support program to develop concepts, ensure sharing of lessons learned, and provide support to the NEPAD Secretariat and collaborating regional institutions.

Small Grants Programme and capacity enhancement

47. As part of the implementation of the strategic approach to enhance the capacity building, the Small Grants Programme (SGP) continued to initiate a broad range of projects addressing capacity development needs for local communities and NGOs across its network of 73 country programmes in the period 2003-04. In Chile, the SGP has been working to deliver electricity provided completely from renewable sources to isolated Amincha, Ascotan, Cebollar, Chela, Coska, Inca and Puquios indigenous Quechua communities in Ollague district. The SGP is working on biogas demonstration projects in the Yakh-kesh region of Iran, helping the popularization of solar ovens in Mauritania, improving cooking stoves in Bhutan. Other capacity building projects include an information center on the production of hand-made briquettes in the southern Gobi region of Mongolia, and the dissemination of energy-saving 'Hydra Form brick technology' for domestic construction purposes in Uttar Pradesh in India."

Implementation of operational approach to adaptation

48. At its meeting in November 2003, the GEF Council took note of the GEF Business Plan FY05 - 07 which proposes a new strategic priority: Piloting an Operational Approach to Adaptation. The Conference of the Parties at its ninth session requested the GEF to operationalize the new strategic priority in the climate change focal area as soon as possible and to include in its report to COP10 information on specific steps undertaken to implement this decision.¹⁶

49. Information on the operationalization of the strategic priority on piloting an operational approach to adaptation in document GEF/C.23/Inf.8/Rev.1 was circulated at the Council meeting in May 2004. This paper provides guidelines on how that new strategic priority will be implemented. The guidelines are designed to ensure that the strategic priority will lead to broad based results and lessons that will inform the international community as it seeks effective ways to respond to the issue of adaptation. The paper was developed in collaboration with the Implementing Agencies and STAP. The Convention Secretariat also contributed to discussions on the paper and collaborated with the GEF to analyze and summarize the results of the vulnerability and adaptation sections of first and, when available, second national communications.

50. *Strategic priority on adaptation.* The strategic priority on adaptation seeks to implement the UNFCCC guidance by supporting a portfolio of projects which will be designed to maximize the opportunity for learning and capacity building and will be representative of particularly vulnerable regions, sectors, geographic areas, ecosystems and communities. Such an approach will provide the GEF and its partners with the opportunity to implement and learn about adaptation within a wide scope, thereby providing valuable lessons and guidance for the international community as it moves forward in assisting developing countries to adapt to the impacts of climate change.

¹⁶ Decision 4/CP.9.

51. *Operational guidelines.* The operational guidelines¹⁷ will be followed in developing projects for the strategic priority. The following points merit highlighting:

- (a) Activities to be funded should be country-driven, cost-effective and integrated into national sustainable development and poverty-reduction strategies. The adaptation measures will be guided such preparatory work as the first and second national communications, NAPAs, and other relevant country studies.
- (b) The strategic priority on adaptation portfolio is designed to maximize the opportunity for learning and capacity building and will be representative of particularly vulnerable regions, sectors, geographic areas, ecosystems, communities.
- (c) The experiences and lessons from the strategic priority on adaptation projects should be applicable in a wide context. The GEF will use experience from the strategic priority on adaptation to develop good practices and estimates of the costs of adaptation to better mainstream adaptation into the full range of GEF activities.
- (d) The pilot or demonstration projects must include: (i) activities within a natural resources management context that generate global environmental benefits, and (ii) adaptation measures that provide other major development benefits (e.g. WEHAB, i.e. water, energy, health, agriculture, biodiversity).
- (e) The existing eligibility criteria for GEF funding, such as country drivenness, ecological and financial sustainability, replicability, stakeholder involvement, M&E, will be applied to the projects submitted under the strategic priority on adaptation.

52. *Mainstreaming adaptation into the other GEF focal areas.* The projects funded under this strategic priority will build on and expand the scope of the existing adaptation experience of the GEF portfolio, which generates global environmental benefits and emphasizes linkages among all focal areas.

53. Vulnerability and adaptation to climate change are becoming increasingly more relevant components in projects across all GEF focal areas. The GEF portfolio in biodiversity, international waters, and land degradation includes selected examples of activities that build capacity or support measures that help countries respond to the consequences of climate change. However, this support is typically indirect and rarely if ever undertaken specifically due to ongoing or expected climate risks. There would appear to be untapped opportunities to integrate adaptation concerns into these focal areas, thereby strengthening within GEF-financed projects the linkages between climate change and the attainment of other global environmental objectives.

54. The GEF will work with its partners to ensure that greater attention is paid in all GEF projects to the issue of adaptation. At the end of the pilot, in addition to the lessons that are learned from the projects directly financed under the strategic priority, the GEF should also be able to point to a strengthened portfolio of activities in all areas that serve to enhance the capabilities of countries to adapt to climate change impacts in all focal areas. At the end of the pilot, adaptation should be fully mainstreamed in the GEF portfolio.

¹⁷ Annex C to the document GEF/C.23/Inf.8/Rev1.

55. *Mainstreaming adaptation into sustainable development.* Mainstreaming adaptation into sustainable development is an overall goal of GEF's support. Adverse impacts of climate change will negatively affect a country's sustainable development in diverse ways and across a number of key areas, including water resources, energy, health, agriculture, and biodiversity. Consequently, activities to address the challenges of adaptation will need to be placed within the context of a country's sustainable development policies and strategies. The overall goal of GEF's support in the area of adaptation will be to assist countries to mainstream adaptation into their development planning.

Other matters

Technical needs assessment

56. In Decision 4/CP.9, *Additional guidance to an operating entity of the financial mechanism*, the Conference of the Parties requested the GEF to, "... on matters relating to transfer of technology, continue to support enabling activities relating to technology needs assessments".

57. Assistance for *technology needs assessments* was provided through additional financing, also known as "top-ups" to enabling activities for the first national communication. Around 100 non-Annex I countries received expedited funding for top-ups as of June 2004. With the start of the National Communication Program, a new practical and expeditious modality has been suggested for the GEF continued support of technology needs assessments for those countries that have not received "top-ups".

58. Expedited funding for technology needs assessments for those countries that have not yet received financial assistance and are working with an Implementing Agency on the preparation of the second national communication should include in the budget for the second national communication a budget for the technical needs assessment. If a country chooses not to initiate its next national communications, but wishing to prepare a technology needs assessment, it should approach the Implementing Agency with which it works. All three Implementing Agencies have been authorized to provide such support to those non-Annex I countries which have not yet received it. Experience from past efforts has demonstrated that budgetary allocations for technology needs assessments averaged approximately US\$50,000. The Implementing Agencies have been authorized to provide up to this amount of resources for those countries which have not yet requested support for their technology needs assessments.

Consultation with the Convention Secretariat

59. The GEF Secretariat and the Convention Secretariat continue to collaborate on matters relevant to the Convention through bilateral meetings, participation of appropriate representatives in working groups and task forces, joint hiring of consultants, and frequent communication. In addition to the cooperation on issues related to the *National Communication Program for Climate Change*, the Strategic Priorities on Adaptation, capacity building, and the Climate Change funds, the two secretariats have initiated discussions on issues related to follow-up to paragraph 2 of decision 5/CP.8, which requests the GEF secretariat, in consultation with the UNFCCC secretariat, to "initiate a dialogue in order to implement more effectively the guidance provided by the Conference of the Parties to the

Global Environment Facility as an entity operating the financial mechanism, drawing upon the experience gained and lessons learned from the projects and programs funded by the Global Environment Facility, and to explore opportunities for streamlining guidance, and to report on the outcome of this dialogue in its report to the Conference of the Parties at its tenth session".

IV. HIGHLIGHTS OF OTHER RELEVANT ACTIVITIES

60. During the reporting period, the GEF has also undertaken other activities which are of relevance to its climate change portfolio. The GEF Council approved *Action Plan to Respond to Recommendations for Improving GEF's Performance* and the document is available at the GEF website. The GEF continued its efforts to streamline its project cycle, and the Council has under discussion an action plan to respond to the recommendations of medium-sized projects evaluation, and a GEF resource allocation framework. As the activities are still under development, the GEF will continue to keep the Conference of the Parties informed of new progress in its future reports.

Further streamlining project cycle

61. The GEF is further streamlining its project cycle to respond to requests of the conventions and the GEF Council. The GEF Project Cycle was approved in 1995 and updated in October 2000. The Council agreed to keep the Project Cycle under review, particularly in 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 of these changes and additional policies that have been approved by the Council in the future Project Cycle Update.

62. The update of the GEF Project Cycle in October 2000 adopted recommendations, “*Driving for Results in the GEF: Streamlining and Balancing Project Cycle Management*” (GEF/C.16/5), which aimed to improve GEF responsiveness, achieve better on-the ground results and enhance project quality. The Council also requested the GEF Secretariat and the Implementing Agencies to streamline and balance operations and to continue to develop options for further improvements. Since then, Council has approved a number of other policies and procedures that have streamlined the Project Cycle further.

63. Under the framework of continued streamlining of the GEF project cycle, a document *GEF Project Cycle: Update*, GEF/C.22/Inf.9 was circulated in November, 2003. It illustrates the various steps that projects have to progress through to obtain financial support from the GEF. The document summarizes the major phases of project cycle activities in the Implementing and Executing Agencies, describes in detail the different GEF decision and intervention points, and explains when and how the GEF decision points interface with the Agencies’ project cycle. It also describes the requirements and project review criteria applicable at each decision point.

Action plan to respond to the recommendations of medium-sized projects evaluation¹⁸

64. Procedures for medium-sized projects (MSP) were approved by the GEF Council in October 1996 in order to encourage the submission and execution of smaller-sized projects by a broad range of groups and organizations. After five years of MSP project implementation, a review of the GEF experience related to MSPs was undertaken in 2001 as an input to the Second Overall Performance Study of the GEF. The evaluation report¹⁹ concluded that MSPs have, amongst other benefits, broadened and legitimized partnerships and multilateral relationships that have improved collaboration between NGOs, governments, research institutions, the private sector and the GEF, and that the capacity at local and national levels has been increased. However, the expedited procedures envisaged for the MSPs have fallen short of expectations. Although the average elapsed time for MSPs is significantly less than that for full-sized projects, there is clearly scope for improvement in MSP processing times.

65. As a follow-up to the MSP evaluation, the GEF Secretariat organized a MSP Working Group consisting of representatives from the Implementing Agencies, two NGOs, and an executing agency working under the expanded opportunities to review the recommendations from the Evaluation Report with the objective of exploring proposals to improve the procedures for the development, approval and implementation of MSPs. The Working Group conducted seven meetings from July 23, 2003 to April 2004 to review the priority recommendations from the Evaluation Report and actions have been agreed to address the recommendations under the following six headings:

- (a) capacity building for executing agencies,
- (b) technical standards of MSPs,
- (c) implementing agency policies and procedures,
- (d) role of the focal points,
- (e) project cycle, and
- (f) information dissemination.

¹⁸ See GEF/C.23/ Inf. 6.

¹⁹ See Medium-Sized Projects Evaluation, www.theGEF.org, under Monitoring and Evaluation.

66. To resolve some of the issues raised in the Evaluation Report, new ideas were discussed for further streamlining of the current project cycle for smaller size MSPs, i.e., those not more than \$250,000 in GEF financing. The Working Group is continuing its work to explore different modalities and delivery systems for MSPs. It is expected that new proposal or proposals for changes to the GEF project cycle and MSP procedures, in order to better structure smaller sized MSPs, will be prepared for Council consideration at its future meetings. In addition, there may also be opportunities for promoting more diversity in project proponents and executors of smaller projects within the existing GEF project cycle.

GEF resources allocation

67. During the Third Replenishment of the GEF, Participants requested “the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide.”²⁰ Furthermore, the policy recommendations stated, “the system should establish a framework for allocation to global environmental priorities and to countries based on performance. Such a system would provide for varied levels and types of support to countries based on transparent assessments of those elements of country capacity, policies and practices most applicable to successful implementation of GEF projects. This system should ensure that all member countries could be informed as to how allocation decisions are made.”²¹

68. The Council endorsed the Policy Recommendations of the Third Replenishment in October 2002. At the May 2003 meeting, the Council discussed an issue note on: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level (GEF/C.21/8), and requested “the GEF Secretariat to establish and chair a working group of technical experts to prepare elements of a framework for GEF performance-based allocations for Council review and approval.”²² The working group was requested to present its report to the Council for review and comment at the November 2003 meeting.

69. Based on nominations received from Council Members, and other experts identified by the Secretariat, the CEO constituted a Technical Working Group (hereafter referred to as Working Group). The Working Group met twice on August 19-20, and October 2-3, 2003. The outcomes of the discussion of the Working Group were reflected in the document *Performance-Based Framework for Allocation of GEF Resources* (GEF/C.22/11, October, 2003).

70. At its meeting in November 2003, the Council agreed to develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. In this regard, the Council requested the GEF Secretariat to present to the May 2004 Council meeting a study of options to strengthen the current system of allocating GEF resources with a view to coming to a conclusion in November 2004. In developing these options, the Secretariat was to consult with the Implementing and Executing Agencies, and member countries, and was to consider the principles of simplicity, transparency, pragmatism,

²⁰ GEF/C.20/4, Summary of Negotiations on the Third Replenishment of the GEF Trust Fund, Annex C, paragraph 16.

²¹ Ibid, para 18.

²² Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, paragraph 18.

cost-effectiveness, comprehensiveness, country-drivenness, and equal opportunity for all recipient countries to have access to GEF resources.

71. At the May 2004 meeting, the GEF Council discussed the document *Performance-based Framework for Allocation of GEF Resources* (GEF/C.23/7), and requested the GEF Secretariat to convene a seminar in September 2004 to further advance work on the development of a resource allocation framework for the GEF. The Secretariat was requested to prepare a more elaborated document for the seminar and propose additional options and simulations (without country identification).

72. The GEF Seminar on Resource Allocation Framework will take place in Paris from September 27 to 28, 2004. The participants (each constituency is invited to nominate two representatives) will review issues and options raised in the report prepared by the GEF Secretariat.²³ The GEF will update the Conference of the Parties during the tenth session on the progress being achieved and relevant decisions of the Council.

V. GEF MONITORING AND EVALUATION ACTIVITIES

73. During the reporting period, the GEF Monitoring and Evaluation Unit (GEF M&E) prepared the *Project Performance Report 2003, Climate Change Program Study, Review of GEF Engagement with the Private Sector*, and progress was made for the Third Study of the GEF's Overall Performance. GEF M&E is independent and reports directly to the GEF Council. The following information has been provided by this unit. Documents on GEF Monitoring and Evaluation are available at the GEF web site: www.theGEF.org, under Monitoring and Evaluation.

Project Performance Report 2003

74. This Project Performance Review (PPR)²⁴ draws on the findings of the 2003 Project Implementation Review (PIR), a monitoring process based upon reporting by the GEF Implementing Agencies (IAs) on all projects under implementation for at least one year. Under the PIR, projects are assessed on their implementation progress and likelihood of attaining the development/global environment objectives. The 2003 PPR also incorporates findings, lessons, and recommendations from two new instruments used this year by the GEF M&E: Specially Managed Project Reviews (SMPRs)²⁵ and Terminal Evaluation Review (TERs)²⁶. The report's findings on climate change projects largely support the conclusions drawn in the climate change program study and private sector review referred to below.

²³ The document *GEF Resources Allocation Framework* is available at the GEF website.

²⁴ See document GEF/C.23/Inf.5.

²⁵ SMPRs assess whether projects are implemented in conformity with project objectives and GEF policies, and whether they have incorporated lessons learned to improve portfolio quality. The M&E Unit coordinates the implementation of the SMPR with the participation of the GEF Secretariat, the IAs, and independent consultants. This year's SMPRs included two climate change projects.

²⁶ TERs examine the terminal evaluations completed by the IAs to assess performance related to project objectives and compliance with the eight GEF review criteria. Terminal Evaluation Reviews are a major tool for generating lessons, and account for resource use. The 2003 PPR included 17 TERs and 7 from the climate change focal area.

Reducing or Avoiding GHG Emissions

75. The Climate Change Program Study contains an assessment of avoided GHG emissions for 43 closed projects, and target estimates for 124 on-going projects. . The Project Performance Report also provides some examples of achievements in this area. For example, the final evaluation of the World Bank *Sri Lanka - Energy Services Delivery* project states that the project will result in a reduction of 514,000 tons of carbon emissions over the life of the subprojects while installing 35.3 MW of renewable energy capacity and serving more than 22,500 off-grid customers. Also the UNEP *Global Project Redirecting Commercial Investment Decisions to Cleaner Technology* final evaluation concludes that the project promoted an enabling environment for private sector participation in grid-connected renewable energy projects in a few countries, contributing to five investments that will reduce CO₂ emissions by an estimated 2,842,720 tons over 20 –years. According to the SMPR and the final evaluation, in three years the *Cuba Producing Energy Efficient Refrigerators without Making Use of Ozone Depleting Substances* project (UNDP) has produced and sold 18,000 units, which will contribute to reducing a total of 74,504 tons of CO₂ over the 15-year life of the units (although the SMPR found that the sustainability of the production was not satisfactory). The final evaluation of the UNDP *Regional Project Creation and Strengthening of the Capacity for Sustainable Renewable Energy Development in Central America* reports that the GEF project resulted in eight demonstration subprojects in seven countries to service off-grid communities with different renewable alternatives, representing an expected reduction of 20,000 tons of CO₂ annually. The World Bank's *Energy Conservation Project in China* will reduce 580,000 tons of carbon as a result of energy performance contracts implemented by Energy Service Companies (ESCOs) assisted by the project.

Contributing to Energy Efficiency and Renewable Energy Market Transformations

76. One of the most important indicators of the impacts of UNDP's Climate Change projects is the shift in national policies from the business-as-usual approach to one that supports more sustainable energy markets. Some of the projects have reported major accomplishments in regard to policy and regulatory reform. The UNDP *Barrier Removal for the Widespread Commercialization of Energy-Efficient CFC-Free Refrigerators in China*, for example, contributed to lasting changes in the structure and functioning of the refrigerator market—not only in China but also in the Asian export market—by working with refrigerator manufacturers to promote minimum efficiency standards and labels.

77. UNDP OP5 projects employ policy and regulatory reforms and standard setting—and capacity development to implement them—to achieve the market transformation of energy efficient products. These can be cost-effective measures that achieve impacts within a short time span. UNDP projects have induced producers to accept minimum energy efficiency standards voluntarily. In *the China Barrier Removal for Efficient Lighting Products and Systems project*, for example, UNDP contributed to the National Greenlights Program by working with some major manufacturers to adopt national minimum efficiency standards for compact and double capped fluorescent lamps, and participated in developing the National Certification Label for these products.

78. The promotion of ESCOs has also had an important role in energy efficiency market transformation. For example, through the World Bank Energy Conservation Project in China, several pilot ESCOs have been developed in three provinces—Beijing, Shandong, and Liaoning—and have demonstrated the commercial viability of the market-oriented energy service company concept. New laws and regulations necessary for such businesses to survive were also developed. By early 2002, the three companies had implemented 209 energy performance contracts with a wide variety of customers.

79. Other projects have contributed to renewable energy market transformations by supporting an increase in the numbers of developers and dealers (in Indonesia, Sri Lanka) as well as developing new financing for alternative energy businesses. For example, the World Bank reports that the most discernable impact of its GEF cofinanced operations has been the establishment of a large number of businesses in developing countries, which provide renewable energy products and associated services such as credit and maintenance. The social, economic, and employment impacts of these renewable energy businesses are now engendering a growing constituency for renewable energy markets.

Climate Change Project Challenges

80. Some Climate Change projects' outcomes have been limited by the small size of the market affected, by failing to respond to the real energy needs of the market, by failing to ensure replication of outcomes or by underestimating the market barriers. For example, isolated rural PV projects do not lead to significant direct CO₂ emission reductions, given the limited number of households directly equipped by the projects and the failure to overcome replication barriers. However, these projects have been supported by the GEF as they could potentially represent one of the few cost-effective and GHG-neutral approaches to provide energy services to the nearly 1.6 billion people without access to electricity.

Climate Change Program Study

81. The Program Study aims to provide an overall evaluation of the results and performance of the GEF Climate Change Program from its inception in 1991 through to mid-2004, focusing on analysis of the results of the GEF interventions; the performance of the GEF in achieving these results; and lessons on what strategies have been most effective in reaching outcomes. It covers impacts on avoided GHG emissions and sustainable market transformation outcomes with respect to enabling policies, available financing and requisite business infrastructure.

82. As background to the GEF mandate, the report contains a brief overview of key trends in the global efforts to combat climate change within the context of the United Nations Framework Convention on Climate Change. Furthermore, it covers the response of the GEF to Convention guidance, and makes recommendations on the strategic focus of the climate change program. After review and consultation with the stakeholders, the study will be finalized for posting on the GEF M&E website in September 2004.

Review of GEF Engagement with the Private Sector

83. The GEF Monitoring and Evaluation Unit. also conducted a *Review of GEF Engagement with the Private Sector Final Report*, GEF/C.23/Inf.4, available at the tenth session of the Conference of the Parties and on the GEF website. The review only covers projects that focus on climate change and biodiversity. Twenty four GEF projects were selected for field visits, as examples of larger issues in regard to the approach taken. The review focused on assessing lessons learned with regard to the major approaches employed for private sector engagement in the two focal areas.

Review in the focal area of climate change

84. Within the overall objective to support sustainable measures that reduce the risks and adverse effects of climate change, the activities relevant to private sector engagement include long-term mitigation projects and enabling activities to facilitate implementation of responsive measures. The Study focused on OP5 (removal of barriers to energy conservation and energy efficiency) and OP6 (promotion of adoption of renewable energy by removing barriers and reducing implementation costs).

85. The projects analyzed use modalities that engage the private sector both directly and indirectly. These direct and indirect modalities coincide with the “supply push” and “demand pull” approaches to increasing the adoption of energy-efficient or renewable energy products, services, and practices. Supply-push strategies include providing technical assistance and know-how transfer to manufacturers to upgrade their product designs; supporting minimum efficiency standards and regulatory mechanisms; facilitating voluntary agreements with manufacturers and distributors; piloting new distribution mechanisms through retailers or electric utilities; providing financial incentives to producers; providing quality testing; and providing financing for manufacturing upgrades. Demand-pull strategies include educating consumers and professionals about the characteristics, costs, and benefits of the energy-efficient or renewable energy technology; running media campaigns to increase consumer awareness; reducing retail prices of technology through rebates, subsidies, and bulk

purchases; providing consumer financing; offering buy-back/recycling programs, and establishing certification, standardization, and labeling programs.

Conclusions in the area of climate change

86. The GEF private sector portfolio has evolved from the early days of the pilot phase without specific policies or guidelines for private sector engagement. The 1996 and 1999 Council papers lay down some essential principles, but do not clarify the objectives, scope, and guidelines of engagement.

87. GEF has utilized both grant and non-grant assistance as its financial modalities in engaging the private sector. The appropriateness of particular financing mechanisms in the climate focal area is highly dependent on the state of the market. Grants have been used to stimulate markets, in the early stage of development, through awareness raising, standard setting and certification; and technical assistance. More sophisticated non-grant mechanisms may be better-suited for markets whose development is farther along. Such modalities have included contingent grants, loans, partial risk guarantees, investment funds, and reserve funds, where there might be a lack of local expertise, environmental uncertainties, or other obstacles.

88. GEF projects aiming at influencing public policy and regulatory frameworks appear to have been successful in creating conditions for market transformation in energy-efficient equipment. Promising results have been achieved through projects related to certification, labeling, and standard setting, with the support of public sector agencies, private manufacturers, and other private sector actors. Some of these projects have demonstrated highly cost-effective options for reduction of CO₂ emissions through promotion of markets for highly energy-efficient refrigerators, fluorescent lighting equipment, building insulation, and air conditioning.

89. The results of projects aimed at developing a market for off-grid energy from photovoltaic technologies have not been so encouraging. These projects face a number of obstacles, including relatively high cost to consumers, lower than expected demand, service problems for dispersed rural populations, competition with the grid-based energy, and especially the absence of risk-sharing by PV manufacturers and other private sector actors.

Third Study of the GEF's Overall Performance

90. The Terms of Reference for the Third Overall Performance Study (OPS3) were approved by the GEF Council in May 2004. Its purpose is to assess the extent to which GEF has achieved, or is on its way towards achieving its main objectives, as provided in the GEF Instrument and subsequent decisions by the GEF Council and the Assembly. The Study will contribute to the next replenishment process of the GEF Trust Fund. There are five main topics for the Study: (a) operational and program results; (b) sustainability of results; (c) effects of GEF operations on other institutions and related issue; (d) effects of GEF's institutional structure and procedures on results; and (e) effects of GEF implementation

processes. The process of recruitment of an independent firm to undertake the work is almost complete, and the study is expected to be launched in September 2004 and completed in May 2005.

ANNEX A: PROJECT SUMMARIES

The full and medium-sized projects approved during the reporting period are listed in accordance with the GEF operational programs in the area of climate change. The approved projects cover the following operational programs: removal of barriers to energy efficiency and energy conservation under the operational program number 5 (OP5); promoting the adoption of renewable energy under the operational program number 6 (OP6); and Reducing the Long-Term Costs of Low Greenhouse Gas Emitting Energy Technologies (OP7). One project addresses capacity building. Further information on the GEF Operational Strategy and Operational Programs is available on GEF web: www.TheGEF.org.

FULL-SIZED PROJECTS

Global: *National Communications Programme for Climate Change* (UNDP/UNEP)

This is an umbrella initiative, implemented through UNDP and UNEP, to support countries prepare second national communications to the UNFCCC. Over its six-year lifetime, the initiative will provide financial assistance for up to 130 non-Annex I countries.

Global: *Fuel Cells Financing Initiative for Distributed Generation Applications*²⁷ (World Bank/IFC) (OP7)

The proposed project would promote commercial use of fuel cells in distributed generation applications. Stage 1 starts with three pilot installations, each as a separate stand-alone deal and separate Council work program submission to test the financing and business models for distributed generation investments with fuel cells. State 2, which only starts once the industry achieves specified cost reduction milestones, provides an umbrella financing program for scaling up the financing and business models piloted in Stage 1.

Botswana: *Renewable Energy-Based Rural Electrification Programme* (UNDP) (OP6)

The global objective of the project is to reduce the emission of greenhouse gas (GHG) in the Botswana power sector by removing barriers for large-scale dissemination of solar photovoltaic (PV) technology.

Bulgaria: *Energy Efficiency Project* (World Bank) (OP5)

The objective of the project is to support a large increase in energy efficiency investment in Bulgaria through development of a self-sustaining, market-based financing mechanism. The project's goal is focused on the development and implementation of financially profitable energy efficiency investment. GEF financing of US\$10 million will be sought to provide the seed capital for BEEF (US\$8.8 million) and to fund a technical assistance component (US\$1.2 million). As BEEF seeks to make profit, investment financing and partial credit guarantees would be provided on commercial terms. The BEEF would be designed to attract a substantial amount of commercial co-financing, in addition to a minimum of 20% contribution to project costs by the borrowers.

China: *Heat Reform and Building Energy Efficiency Project* (World Bank) (OP5)

Project aims to improve the energy efficiency of new building construction in China through a combination of building equipment market transformation and heat supply policy approaches. It promotes demand in the housing sector for more efficient building materials and for more effective heat metering and control equipment. It also promotes new policies and institutions for metering, controlling, and managing centralized heat supply systems. The project is part of a broader program for heat reform and building energy efficiency by the World Bank and China. Concept fits within "efficient product market transformation" strategic priority.

²⁷ This project will be circulated for review by Council Members prior to CEO endorsement. If at least four Council Members express concerns to the CEO, this project will be reviewed by a Council meeting in accordance with the established GEF procedures.

Cuba: Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the case of Isla de la Juventud (UNEP) (OP6)

Energy-related CO₂ emissions are reduced through barrier removal and promotion of environmentally sound renewable energy technologies for power generation and process heat. The project will introduce new and innovative financial and institutional structures to encourage private investments, support economically viable, environmentally sustainable markets, and enhance local manufacturing capacity for renewable energy technologies in Cuba. The project would establish commercial business models for renewable technologies providing modern energy services on the Island and their replication in the region under similar conditions.

Egypt: Solar Thermal Hybrid Project ²⁸ (World Bank) (OP6)

The proposed project would develop a hybrid solar thermal and gas fueled power plant in the private sector. The solar component would be about 29 MW and the gas fired component about 98MW. The expected solar share of power generation would be between 5% and 10%. The project would include associated training, capacity building and monitoring activities as well as a "gateway" for information sharing with other similar projects and interested parties. This would be the fourth of four similar projects; the others being in India, Mexico and Morocco which have been approved by GEF as part of a strategy to accelerate cost reduction and commercial adoption of high temperature solar thermal energy technology.

Eritrea: Wind Energy Applications (UNDP) (OP6)

The project aims at reducing Eritrea's energy related CO₂ emissions by promoting both on-grid and off-grid wind energy systems as a substitute for fossil fuel based energy generation. At the same time the project aims at promoting socio-economic development and improving people's livelihood by facilitating access to clean energy services. The project consists of the following main components: 1. Capacity development and awareness raising; 2. Installation of a grid-connected wind farm (750kW); and 3. Installation of 8 small scale decentralized wind stand alone and wind-diesel hybrid systems.

Lesotho: Renewable Energy-based Rural Electrification (UNDP) (OP6)

The project aims at reducing Lesotho's energy-related CO₂ emissions by introducing renewable energy technologies as a substitute for fossil fuel (paraffin and diesel) in rural areas remote from the national electricity grid and improving people's livelihoods by improving their access to and affordability of modern energy services. In addition, the project will decrease the growing number of rural poor, adults and children alike, who contract respiratory and eye problems due to prolonged exposure to paraffin smoke and soot (poor indoor air quality). The activities proposed in the project are designed to remove barriers to the wide-scale utilisation of renewable energy technologies (PV, wind and mini hydro) to meet the basic electricity needs of households, small businesses and of community users like health clinics and schools, initially in the Mokhotlong district, but eventually in the whole country.

Malaysia: Building Integrated Photovoltaic Technology Application Project (UNDP) (OP6)

The project promotes building integrated PV (BIPV) applications for new and existing buildings, integrated with building design and energy efficiency. It includes targeted research, capacity building for local manufacturers and architect/engineers, regulatory frameworks, and pilot demonstrations. Concept fits with both technology market aggregation/innovation strategic priority (OP7--distributed generation) and power sector policy strategic priority (OP6).

²⁸ This project will be circulated for review by Council Members prior to CEO endorsement. If at least four Council Members express concerns to the CEO, this project will be reviewed by a Council meeting in accordance with the established GEF procedures.

Pakistan: Sustainable Development of Utility-Scale Wind Power Production (Phase 1) (UNDP) (OP6)

The overall project objective is to facilitate a low CO₂ path for development through establishing and demonstrating commercial viability of a package for widespread harnessing wind energy in remote areas.

Philippines: Efficient Lighting Market Transformation Project (UNDP) (OP5)

The Philippine Efficient Lighting Market Transformation Project is intended to address the barriers to widespread utilization of energy efficient lighting (EEL) systems in the Philippines. It is aimed at contributing to the realization of the country's sustainable development objectives and its goal in reducing GHG emissions in the energy sector. It will specifically focus on the promotion of energy efficient version of linear fluorescent lamps, CFLs, high intensity discharge lamps, ballasts, and luminaries. The project will accelerate integration of EEL promotion programs in the energy conservation and energy efficiency programs of the Philippines' Department of Energy, enhance private sector's involvement and appreciation of the benefits of EELs, and ensure that environmental impacts associated with the widespread use of EELs are mitigated.

Swaziland: Energizing Rural Transformation (World Bank) (OP5)

The project promotes renewable energy for grid-based power generation, rural home lighting, rural schools and health clinics, and telecommunications to rural communities and enterprises, all integrated with national policies for rural electrification and telecommunications. The project provides business development assistance to rural businesses to deliver renewable energy. Initial subsidies for off-grid systems are eventually replaced by a rural access trust fund. New financing mechanisms for grid-based power are developed, including carbon finance. Power sector regulatory and policy development support grid-based renewable power. Fits both "productive uses" and "power sector policy" strategic priorities.

Tunisia: Development of On-Grid Wind Electricity in Tunisia for the 10th Plan (UNDP) (OP5)

The overall goal of the project is to significantly reduce the emission of greenhouse gases in Tunisia by increasing the use of renewable energy resources and thereby reducing the consumption of indigenous fossil resources.

Tunisia: Development of an Energy Efficiency Program for the Industrial Sector for Tunisia (World Bank) (OP5)

The project is expected to have three main components: (a) establishment of a financial intermediation mechanism to support private sector energy efficiency investments (through ESCO projects among others); (b) a sustainable partial guarantee fund; and (c) technical assistance to local financial institutions, other intermediaries on the development of bankable projects and the mechanisms to secure project financing and creation of ESCOs, and for energy end-user information dissemination and development of a limited number of demonstration projects. The project will focus in a first instance on the larger and medium-size industries, which present the bulk of potential for energy efficiency measures.

Vietnam: Energy Efficiency Public Lighting Project (UNDP) (OP6)

Energy efficiency public lighting (VEEPL) is aimed at building both technical and policy support for transition to more energy efficient public lighting in Vietnam. By increasing the energy efficiency of public lighting installed over the next 10 years, the project will significantly reduce electricity consumption by the public lighting sector in Vietnam compared to what it otherwise would have been. Reducing electricity consumption will reduce emissions of GHG from the Vietnamese electricity generation sector. Although VEEPL specifically targets public lighting (street lighting,

public spaces and public buildings), the technical capacity and policies established through the project will support lighting efficiency efforts in other sectors as well. In order to remove barriers to the EE of public lighting, VEEPL is organized in 5 components: 1. policy development; 2. technical support; 3. financing; 4. technology demonstration; and 5. information dissemination and awareness rising.

Zambia: Renewable Energy-based Electricity Generation for Isolated Mini-grids (UNEP) (OP6)

This project will develop sustainable models for renewable energy based electricity generation and distribution via isolated mini-grids. Initial activities will focus on a carefully selected pilot area, from where replication activities will be designed for implementation in other appropriate areas in Zambia.

Medium-sized Projects

Global: Development of a Strategic Market Intervention Approach for Grid-Connected Solar Energy Technologies (UNEP) (OP6)

The goal of the Development of a Strategic Market Intervention Approach for Grid-Connected Solar Energy Technologies (EMPower) project is to bring about dramatic reductions in the cost of electricity generated from Solar Electric Technologies (SETs), specifically photovoltaics (PV) and concentrating solar power (CSP), by aggregating sufficient demand. EMPower will identify and enable development of the required institutional and organizational capability necessary to identify grid connected SET projects with commercial potential, aggregate market demand, develop appropriate financing and risk sharing mechanisms and investigate innovative procurement techniques to offer the aggregated demand to the market, in a manner which allows the supply community to respond with technology priced to enable commercial transactions.

Honduras: Energy Efficiency Measures in the Honduran Commercial and Industry Sectors (UNDP) (OP5)

The overall objective of the proposed project is to remove barriers to the (increased) commercial use of energy efficient measures and technologies in the commercial and industrial sectors, thereby reducing GHG emissions of electricity and heat generation activities. Specific project objectives are to remove all existing barriers for successful energy efficient pilot projects in the commercial and industrial sectors. This includes existing financial barriers for investments in energy efficient equipment and practices for these pilot projects; and to assist in removing/reducing technical, legislative, institutional/organizational, economic, information and financial barriers related to the replication of the pilot projects.

India: Electric 3-Wheeler Market Launch Phase (UNDP) (OP11)

The project aims to reduce GHG emissions in the transport sector by deploying alternative low GHG emitting technologies and improve quality of life of Urban Population. This would be achieved by increased utilisation of electric 3-Wheeler vehicles to replace fossil fuel powered vehicles in major cities of India.

Maldives: Renewable Energy Technology Development and Application Project (UNDP) (OP6)

The objective of the project is to assist the Government of Maldives in defining and if possible, formulating and finalizing an OP-6 Full Project Brief to submit for GEF financing in the promotion of renewable energy. Depending on the conclusions drawn and

recommendations made after the completion of the pre-project development activities, a project brief either for a PDF-B Proposal or Full Project Brief, whichever is deemed relevant.

Poland: *Demand-side Energy Efficiency in Public Buildings, Lodz Municipal Energy Services Company* (World Bank/EBRD) (OP5)

The Lodz Municipal ESCO project will finance demand side energy efficiency investment in the municipal building stock of the City of Lodz. The project aims to (i) reduce energy consumption and thus the cost of energy services for the City's public building stock and (ii) introduce greater efficiency in the management of the City's utility purchases and energy systems.

Russian Federation: *Developing the Legal and Regulatory Framework for Wind Power* (World Bank/IFC) (OP5)

The project will focus on actions leading to the implementation of a pilot 75 MW grid-connected wind power plant in Leningrad Oblast. The objective of the proposed work would be to develop a framework for large-scale wind power applications in Russia, as a model for the rest of the country. The work will create the legal and regulator models that will help wind power to become a major clean energy resource for Russia.

ANNEX B: GEF FINANCING TO SUPPORT FIRST NATIONAL COMMUNICATIONS

The GEF provided financing to support 132 non-Annex I countries in preparing their first national communications. As of June 2004, the total GEF financing for national projects and additional financing for capacity building in priority areas is US\$ 31.63 million. In addition, the GEF supported, with total GEF financing of US\$ 39.14 million, a number of regional and global projects (project names are attached at the end of the table) to assist or partially assist non-Annex I countries in preparing their first national communications.

Country	First National communication	Additional financing for Capacity Building	Participation in regional projects (project names attached)	Participation in global projects (project names attached)	Total financing from GEF (not includes global and regional projects)
Albania	0.38	0.10		Support program	0.48
Algeria	0.36	0.10	Capacity building in Maghreb	Support program	0.46
Antigua and Barbuda	0.26	0.10	CARICOM	Support program Country studies on CC	0.36
Argentina	1.00			Support program Economics of GHG	1.00
Armenia	0.35	0.10		Support program	0.45
Azerbaijan	0.42	0.09		Support program	0.51
Bahamas	0.28	0.09	CARICOM	Support program	0.37
Bahrain	0.34				0.34
Bangladesh*	0.18		ALGAS		0.18
Barbados	0.19	0.10	CARICOM	Support program	0.29
Belize	0.19		CARICOM	Support program	0.19
Benin*	0.20	0.10		CC: TrainII Support program	0.30
Bhutan*, Kingdom of	0.40	0.10		Support program	0.50
Bolivia	0.29	0.10		CC: TrainII	0.39
Botswana	0.35	0.10		Support program	0.45
Brazil	1.50			Support program	1.50
Burkina Faso*	0.34	0.10		Support program	0.44
Burundi*	0.45	0.10		Support program	0.55

Cambodia*	0.34	0.10		Support program	0.44
Cameroon	0.27			Country studies on CC Support program	0.27
Cape Verde*	0.42	0.10		Support program	0.52
Chad	0.10	0.10		CC: TrainII Support program	0.20
Central African Republic*	0.35				0.35
Chile	0.45	0.10		Support program	0.55
China	3.60		ALGAS	Support program	3.60
Colombia	0.35	0.10		Support program	0.45
Comoros*	0.31	0.10			0.41
Congo (Rep.)	0.42	0.10		Support program	0.52
Congo*, Democratic Republic of	0.35	0.10		Support program	0.45
Cook Islands			PICCAP	CC: TrainII Support program	
Costa Rica	0.47			Support program GHG sources and sinks	0.47
Côte d'Ivoire	0.32	0.10			0.42
Cuba	0.15			CC: TrainII Support program	0.15
Djibouti	0.35				0.35
Dominica	0.17	0.10	CARICOM	Support program	0.27
Dominican Republic	0.35	0.10		Support program	0.45
Ecuador	0.32	0.10		CC: TrainII Economics of GHG Support program	0.42
Egypt	0.45	0.05		Support program	0.50

El Salvador	0.42	0.10		Support program	0.52
Eritrea*	0.30			Support program	0.30
Ethiopia*	0.21	0.10		Support program	0.31
Fiji			PICCAP	CC: TrainII Support program	
Gabon	0.32	0.10		Support program	0.42
Gambia, The*	0.14	0.10		Support program GHG sources and sinks	0.24
Georgia	0.43	0.10		Support program	0.53
Ghana	0.20	0.10	Sub-Saharan Africa		0.30
Grenada	0.18	0.10	CARICOM	Support program	0.28
Guatemala	0.42	0.10		Support program	0.52
Guinea*	0.45	0.10		Support program	0.55
Guinea Bissau*	0.35			Support program	0.35
Guyana	0.20		CARICOM	Support program	0.20
Haiti*	0.35	0.09			0.44
Honduras	0.43	0.10		Support program	0.53
India	2.00			Support program	2.00
Indonesia	0.33	0.10	ALGAS	Support program Economics of GHG	0.43
Iran	0.45	0.10		Support program	0.55
Jamaica	0.23	0.10	CARICOM	Support program	0.33
Jordan	0.09	0.34		Support program	0.43
Kenya	0.17	0.10	Sub-Saharan Africa		0.27
Kiribati			PICCAP	CC: TrainII Support program	
Korea, Democratic People's Republic of	0.15		ALGAS	Support program	0.15

Kyrgyz Republic	0.33	0.09		Support program	0.42
Lao People's Democratic Republic*	0.31	0.10		Support program	0.41
Lebanon	0.29	0.10		Support program	0.39
Lesotho*	0.35	0.10			0.45
Libya	0.27		Capacity building in Maghreb		0.27
Madagascar	0.35			Support program	0.35
Malaysia	0.47			Support program	0.47
Malawi*	0.29	0.10		Support program	0.39
Maldives*	0.86			Support program	0.86
Mali*	0.20	0.10	Sub-Saharan Africa	Support program	0.30
Malta	0.26	0.09		Support program	0.35
Marshall Islands			PICCAP	CC: TrainII Support program	
Mauritania*	0.35	0.10			0.45
Mauritius	0.14	0.09		Economics of GHG	0.23
Mexico	0.31			Support program GHG sources and sinks	0.31
Micronesia			PICCAP	Support program	
Moldova	0.43	0.10		Support program	0.53
Mongolia	0.32	0.09	ALGAS		0.41
Morocco	0.14		Capacity building in Maghreb	Support program GHG sources and sinks	0.14
Mozambique*	0.22			Support program	0.22
Namibia	0.13	0.10		Support program	0.23
Myanmar			ALGAS		
Nauru			PICCAP	CC: TrainII Support program	

Nepal*	0.31	0.10			0.41
Nicaragua	0.30	0.10		Support program	0.40
Niger*	0.45	0.10		Support program	0.55
Nigeria	0.26			Support program	0.26
Niue	0.30	0.10			0.40
Oman	0.30				0.30
Pakistan	0.27	0.10	ALGAS	Country studies on CC	0.37
Palau	0.31			Support program	0.31
Panama	0.30	0.10		Support program	0.40
Papua New Guinea	0.35			Support program	0.35
Paraguay	0.29	0.10		CC: TrainII Support program	0.39
Peru	0.20	0.14		CC: TrainII Support program	0.34
Philippines	0.25	0.10	ALGAS	Support program	0.35
Rwanda	0.33				0.33
Samoa			PICCAP	CC: TrainII Support program	
Sao Tome	0.34			Support program	0.34
Saudi Arabia	0.35			Support program	0.35
St. Kitts & Nevis	0.16	0.10	CARICOM	Support program	0.26
St. Lucia	0.17	0.10	CARICOM	Support program	0.27
St. Vincent and the Grenadines	0.35				0.35
Senegal	0.20	0.10		CC: TrainII Economics of GHG GHG sources and sinks	0.30

Seychelles	0.35	0.10		Support program	0.45
Sierra Leone*	0.31			Support program	0.31
Solomon Islands			PICCAP	CC: TrainII Support program	
South Africa	0.32				0.32
Sri Lanka	0.21	0.10		Support program	0.31
Sudan*	0.29	0.10		Support program	0.39
Suriname	0.40			Support program	0.40
Swaziland	0.30			Support program	0.30
Tajikistan	0.33	0.09		Support program	0.42
Tanzania*	0.25	0.10		GHG sources and sinks	0.35
Thailand	0.29	0.10	ALGAS	Support program	0.39
The F.Y.R. of Macedonia	0.35	0.10		Support program	0.45
Togo*	0.44	0.10		Support program	0.54
Tonga	0.32	0.10		Support program	0.42
Trinidad & Tobago	0.22	0.10	CARICOM	Support program	0.32
Turkmenistan	0.35	0.10			0.45
Tunisia	0.57		Capacity building in Maghreb	Support program	0.57
Tuvalu			PICCAP	CC: TrainII Support program	
Uganda*	0.19	0.10		Support program GHG sources and sinks	0.29
Uruguay	0.70			Support program	0.70
Uzbekistan	0.33	0.09		Support program	0.42
Vanuatu			PICCAP	CC: TrainII Support program	
Venezuela	0.35			GHG sources and sinks	0.35

				Support program	
Vietnam	0.31	0.90	ALGAS	Economics of GHG	1.21
Yemen*	0.20	0.10		Support program	0.30
Zambia*	0.26				0.26
Zimbabwe	0.09	0.09	Sub-Saharan Africa		0.18
Total	26.49	5.14			31.63

Regional and global projects covering components or limited components of the first national communications from Non-Annex I Parties:

Pacific Island Climate Change Assistance Project (PICCAP) UNDP, GEF grant is US\$ 3.44 million.

Caribbean Planning for Adaptation to Climate Change (CARICOM), World Bank, GEF grant is US\$ 6.30.

Country Studies on Climate Change Impacts and Adaptation Assessment (Country studies on CC), UNEP, GEF grant is US\$ 2 million.

Building Capacity in the Maghreb to respond to the challenges and opportunities created by the UNFCCC (Capacity building in Maghreb), UNDP, GEF grant is US\$ 2.5 million.

Asia Least-cost GHG Abatement Strategy (ALGAS) UNDP, GEF grant is US\$ 9.5 million.

Building capacity in Sub-Saharan Africa to respond to the UNFCCC (Sub-Saharan Africa), UNDP, GEF grant is US\$ 2 million.

Climate Change Capacity Building: CC: TRAIN-Phase II, UNDP, GEF grant is US\$ 2.7 million.

Country Case Studies on Sources and Sinks of Greenhouse Gases (GHG sources and sinks), UNEP, GEF grant is US\$ 4.5 million.

Economics of GHG Limitation-Methodological Framework for Climate Change Mitigation Assessment (Economics of GHG), UNEP, GEF grant is US\$ 3 million.

National Communications Support Programme (Support program) UNDP/UNEP, GEF grant is US\$ 3.20.

**ANNEX C: REPORTS PREVIOUSLY SUBMITTED BY THE GEF COUNCIL TO THE CONFERENCE
OF THE PARTIES TO THE UNFCCC**

Report of the Global Environment Facility to the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change on the Restructured Global Environment Facility (A/AC.237/89, December 14, 1994)

Report of the Global Environment Facility to the Conference of the Parties on the Development of an Operational Strategy and on Initial Activities in the Field of Climate Change (FCCC/CP/1995/4, March 10, 1995)

Report of the Global Environment Facility to the Second Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1996/8, June 27, 1996)

Report of the Global Environment Facility to the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1997/3, October 31, 1997)

Report of the Global Environment Facility to the Fourth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1998/12, September 29, 1998)

Report of the Global Environment Facility to the Fifth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1999/3, September 29, 1999)

Report of the Global Environment Facility to the Sixth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/2000/3, October 11, 2000)

Report of the Global Environment Facility to the Seventh Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/2001/8, October 16, 2001)

Report of the Global Environment Facility to the Eighth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/2002/4, September 6, 2002)

Report of the Global Environment Facility to the Ninth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/2003/3, October 27, 2003)

ANNEX D: SUMMARY OF THE MEETING OF POTENTIAL DONORS FOR THE SPECIAL CLIMATE CHANGE FUND

INTRODUCTION

1. At the request of the Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC), and with the agreement of the GEF Council, the GEF is responsible for managing the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) established under decision 7/CP.7 of the UNFCCC. In accordance with decision 7/CP.7, Parties included in Annex II to the UNFCCC, and other Parties included in Annex I to the UNFCCC that are in a position to do so, are to be invited to contribute to the funds, which is to be operated by the GEF under the guidance of the Conference of the Parties (COP).

2. At the ninth session of the COP held in Milan from December 1-12, 2003, a decision on each of these two trust funds was approved. The decision on the SCCF provides guidance to the GEF on the type of activities to be funded under the SCCF and requests the GEF to make the necessary arrangements to mobilize resources to make the fund operational without delay. The decision on the LDCF requests the GEF to support the implementation of NAPAs after their completion and to develop modalities for financing that are consistent with elements identified in the decision. Copies of the decisions are annexed to this note.

3. For purposes of mobilizing resources for the new trust funds pursuant to the decisions of the UNFCCC COP, a number of meetings of potential donors are scheduled to be held in 2004 to discuss programming of resources for the SCCF, modalities to be taken into account under the LDCF, and pledges to the SCCF for financing of activities.
4. The first of these meetings was held at the World Bank Conference Center in Paris on Thursday, July 1, 2004. A list of participants attending the meeting is attached to this note.

AGENDA

5. The meeting agreed to consider the following points:
 - (a) programming to implement the guidance for the Special Climate Change Fund approved by the ninth session of the COP to the UNFCCC;
 - (b) financial modalities;
 - (c) elements to be taken into account in developing operational guidelines for funding of the implementation of NAPAs under the LDC Trust Fund; and
 - (d) next steps.
6. The following is a summary of the main points raised during the meeting.

OPENING OF THE MEETING

7. The meeting was opened and chaired by the CEO of the GEF. In opening the meeting, he noted that the successful launching of the funds was important for the process of the climate change

convention. He noted that making the various sources of financial support work in a complementary (non-duplicative) and effective fashion was a difficult challenge that he hoped the meeting would address.

PROGRAMMING TO IMPLEMENT THE GUIDANCE FOR THE SCCF APPROVED BY THE NINTH SESSION OF THE COP TO THE UNFCCC

8. The meeting agreed that it was important to define the “niche” for each of the funding sources identified in decision 7/CP.7 which provides that:

“In order to meet the commitments under Articles 4.1, 4.3, 4.4, 4.5, 4.8 and 4.9, Parties included in Annex II, and other Parties included in Annex I that are in a position to do so, should provide funding for developing country Parties, through the following channels:

- (i) increased Global Environment Facility replenishment;
- (ii) the special climate change fund;
- (iii) the least developed countries fund;
- (iv) bilateral and multilateral sources.²⁹”

9. The guidance from the COP requests that financing from the various funds be complementary. Complementarity could be addressed through the financing of substantially different activities and/or through the type of financing to be made available (i.e., incremental cost financing, additional financing, co-financing). It was noted in particular that it was critical to find the distinction between activities that would be funded under the SCCF and those that are funded under the GEF Trust Fund.

10. It was recommended that with regard to financing for adaptation under the SCCF, an objective should be to make development lending “climate-proof” by supporting preparatory work, constituency building, awareness raising and sharing of lessons. The SCCF should assist countries to assess to what extent development projects are at risk from the impacts of climate change.

11. It was requested that the programming paper seek to highlight the link between adaptation and poverty reduction/benefits for the poor. Climate change impacts fall most heavily on those least able to respond, and activities financed by the SCCF should assist the most vulnerable and those with the greatest need. Highlighting this link could help to mobilize resources in the donor community.

12. It was underlined that the SCCF should serve as a catalyst to leverage additional resources from bilateral and other multilateral sources in both the adaptation and technology transfer areas.

13. With regard to financing of adaptation, recognizing the guidance provided by the COP and the challenges of addressing adaptation, there was general agreement that it would be appropriate for the SCCF to finance the “adaptation additionality” of project activities: i.e, the additional costs of achieving sustainable development imposed on vulnerable countries by the impacts of climate change.

14. In applying this approach to additional costs of adaptation, it may be useful to propose a simplified, pragmatic approach to applying the principle that is based on a sliding proportional scale of co-financing.

²⁹ Decision 7/CP.7, *Funding under the Convention*, paragraph 1(c).

15. With regard to technology transfer, it was noted that financing should be used to address the barriers to the introduction of new technologies to address climate change, especially with regard to enabling environments, capacity, and information.

16. In reviewing the guidance from the COP regarding technology transfer, it was recognized that the types of activities to be financed in accordance with the guidance are not currently financed by the GEF Trust Fund which serves to define the niche for the SCCF with regard to technology transfer.

17. The meeting agreed that the proposal for technology-specific programs was worth pursuing.

18. In discussing country eligibility for financing under the SCCF, it was agreed that this was a matter for discussion within the COP.

FINANCING MODALITIES

19. The meeting reviewed a discussion note that addressed modalities for directing the financing of activities under the trust fund.

20. It was stressed that the SCCF and LDC Trust Funds were voluntary and that it was important to design the funds in such a way that donor interest in contributing to the funds would be enhanced.

21. The meeting recognized that there was a link between eligibility for receiving financing from the funds and the financing modalities. It was also noted that donors needed to understand how their funds would be used before pledging contributions.

22. The meeting requested the Trustee to explore options to link donor contributions to the programming of specific guidance on priorities received from the COP.

ELEMENTS REGARDING FUNDING UNDER THE LDC TRUST FUND

23. The meeting requested the Secretariat to reflect more fully all aspects of the guidance on the LDC Trust Fund in its proposals.

24. It was also suggested that the Secretariat elaborate more fully on existing GEF tools and financing instruments that could be adapted for purposes of the LDC Trust Fund.

25. The activities of the LDC Trust Fund should promote integration with PRSPs and other development planning. In implementing NAPAs, the LDC Trust Fund should seek to design its assistance so as to promote country level coordination with other donors and activities in the country.

26. It was agreed that programming for the implementation of NAPAs was best elaborated after a significant number of NAPAs had been completed, and that countries should be encouraged to complete their NAPAs expeditiously.

27. The Secretariat was requested to seek opportunities to consult with LDCs in the development of the programming document.

NEXT STEPS

28. Participants in the meeting were invited to submit written comments to the Secretariat by July 19, 2004.

29. The Secretariat would revise their draft documents and circulate them to the participants for another round of comments.

30. On the basis of the comments received, the Secretariat would prepare another draft of the documents and circulate them to participants for discussion at a second meeting in Paris on September 29.

31. The Secretariat would prepare final documents after the September meeting with a view to convening a pledging session just prior to the Council meeting in November 2004 (on Monday, November 15).

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