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Agenda item 6

Financial mechanism (Kyoto Protocol): Adaptation Fund

Adaptation Fund

Draft conclusions proposed by the Chair

1. The Subsidiary Body for Implementation (SBI) took note of the submissions from Parties contained in documents FCCC/SBI/2006/MISC.7 and Add.1 and FCCC/SBI/2006/MISC.11, submissions from intergovernmental organizations contained in document FCCC/SBI/2006/MISC.5, and of the report of the workshop on the Adaptation Fund contained in document FCCC/SBI/2006/10.
2. The SBI made progress in its consideration of the Adaptation Fund, and prepared a compilation document containing possible elements for a draft decision on the Adaptation Fund (see annex), without prejudice to further input by Parties.
3. The SBI invited relevant international institutions, including, among others, those contained in the annex referred to in paragraph 2 above, without prejudice to any institution, to submit to the secretariat, by 4 August 2006, information on issues contained in the annex referred in paragraph 2 above, and taking into account views expressed by Parties, including those contained in documents FCCC/SBI/2006/MISC.7 and Add.1 and FCCC/SBI/2006/MISC.11.
4. The SBI requested the secretariat to compile information submitted by institutions as referred in paragraph 3 above in a miscellaneous document for consideration at its twenty-fifth session (November 2006).
5. The SBI agreed to continue deliberating on this matter at its twenty-fifth session, on the basis of the annex referred in paragraph 2 above and of responses provided by institutions, with a view to finalizing its recommendation on the Adaptation Fund to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its second session (November 2006).

Annex

Compilation document containing possible elements for a draft decision on the Adaptation Fund

[The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Article 12, paragraph 8, of the Kyoto Protocol,

Recalling decision 28/CMP.1,

Recalling decisions 5/CP.7, 10/CP.7 and 17/CP.7,

Noting that under the principle of common but differentiated responsibilities which govern the Convention, developed country Parties must “take the lead in modifying longer-term trends in anthropogenic emissions” or mitigation (Article 4, paragraph 2 (a) of the Convention), while the developing country Parties, which are most vulnerable to the adverse effects of climate change, are mainly concerned with adaptation,

Noting that the Adaptation Fund is based on Article 12 of the Kyoto Protocol, which defines the clean development mechanism. The clean development mechanism is a means through which developing countries assist developed countries in meeting their emission reduction obligations under the Kyoto Protocol. The Adaptation Fund is the means through which developing countries share the benefits to be derived from clean development mechanism project activities (the certified emission reductions) with other developing countries that have very limited mitigation capabilities and therefore cannot host clean development mechanism projects, but that are most often the same countries that are particularly vulnerable to the adverse effects of climate change,

Further noting that the objective of the Adaptation Fund is “to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation” (Article 12, paragraph 8 of the Kyoto Protocol),

I. Institutional arrangements to manage the Adaptation Fund

A. Possible principles and criteria to be followed by an institution managing the Adaptation Fund

1. *Decides that the management of the Adaptation Fund shall be guided by the following principles:*

Overarching principles

- (a) Have ability to work under the authority of, and be able to adhere to the guidance to be provided by, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
- (b) Be flexible enough to take account of the adaptation needs of the developing countries that are Parties to the Kyoto Protocol;
- (c) Have a democratic and transparent system of governance, and ensure that, for the administration of the fund, a voting system that allows one vote for one party is in place;

Country-driven approach

- (a) Follow a country-driven approach (decision 28/CMP.1);
- (b) Be responsive to the needs and views of developing countries;
- (c) Reflect national and/or regional priorities;

Accountability

- (d) Be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
- (e) Have separation and independence from the management, procedural arrangements and decision-making process of existing funds under the Convention and the Kyoto Protocol;
- (f) Have separation of accountability and disbursement (separation of quality assurance, implementation and management);
- (g) Have independent monitoring and evaluation function;
- (h) Have independent reviews at regular intervals;

Transparency

- (i) Have sound financial management and transparency (decision 28/CMP.1);
- (j) Have transparent reporting on management of the financial resources;
- (k) Have financial management including independent financial audits and minimum international fiduciary standards;

Fund management

- (l) Have separation from other funding sources (decision 28/CMP.1);
- (m) Be able to create/set up a separate and independent unit to manage the fund, which can produce operational policies for the projects under the fund;
- (n) Be able to maintain the autonomy of the Adaptation Fund from other funds being administered by the same institution/entity;
- (o) Have autonomy to enable the use of funds in a flexible and fluid manner;
- (p) Serve as a catalyst to leverage additional financing;
- (q) Maximize means of funding from other sources;

Effectiveness and efficiency

- (r) Manage effectively and operate expeditiously so that funding is available in a timely manner;
- (s) Have overall flexible, simple, clear streamlined procedures;
- (t) Have low transaction costs and cost-effective management;

- (u) Have low administrative cost for the administration of the Fund and handling of projects;
- (v) Ensure consistency and synergy with activities in related climate change areas;
- (w) Have high standards of professionalism;

Knowledge and networking capacity

- (x) Follow a learning-by-doing approach (decision 28/CMP.1);
- (y) Be an existing institutions with an established structure and with proven experience in handling other funds;
- (z) Have established knowledge and experience on how to manage a fund;
- (aa) Have established knowledge and experience of adaptation activities;
- (bb) Have a wider and/or appropriate base/network of organizations, including regional organizations, to serve as implementing agencies with reach at the national level.

B. Relation of the governing body of the Adaptation Fund with the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

2. **Option 1:** *Reaffirms* that, in accordance with decision 28/CMP.1, the Adaptation Fund shall function under the guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

Option 2: *Decides* that the Adaptation Fund shall function under the guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and be subject to the authority of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

C. Membership of the governing body of the Adaptation Fund

3. **Option 1:** *Decides* that members of the governing body shall be from Parties to the Kyoto Protocol and that the governing body shall have an equal representation of developing and developed country Parties, following a one country-one vote rule

Option 2: *Decides* that members of the governing body shall be from Parties to the Kyoto Protocol and that the governing body shall have balanced representation of Annex I and non-Annex I Parties

Option 3: *Decides* that members of the governing body shall be from Parties to the Kyoto Protocol and that the governing body shall have a majority of non-Annex I Parties

Option 4: *Decides* that members of the governing body shall be from Parties to the Kyoto Protocol and that developing countries shall play the central role in the governance of the Adaptation Fund

(Note: This option assumes the establishment of a new body or the establishment of a new governance structure within an existing body.)

Option 5: *Decides* that decisions of the governing body shall be taken by consensus. In the case that in the consideration of any matter of substance, all practicable efforts by the body and its Chair

have been made and no consensus appears attainable, any member of the governing body may require a formal vote

Decides that the governing body of the Adaptation Fund shall be composed of Parties to the Kyoto Protocol. Participants shall also be accredited to the Council of the Global Environment Facility

Decides further that the governing body of the Adaptation Fund shall consist of XX members representing constituency groupings, taking into account the need for balanced representation of all participants. Each participant shall have one vote.

(Note: This option assumes that the GEF is selected as an institution to manage the Adaptation Fund.)

Option 6: *Decides* that members of the governing body of the Adaptation Fund shall be from Parties to the Kyoto Protocol and that it should be composed of one member from each regional group, one member from the Alliance of Small Island States, two members from Annex I Parties and two members from non-Annex I Parties. There will also be 10 alternate members selected from the same constituencies.

II. Share of proceeds and other funding

A. Sources of funding for the Adaptation Fund

4. **Option 1:** *Reaffirms* that the Adaptation Fund shall be financed from a share of proceeds from clean development mechanism project activities and other sources of funding; (decision 28/CMP.1)

Option 2: *Reaffirms* that the Adaptation Fund shall be financed from a share of proceeds from clean development mechanism project activities and other sources of funding; (decision 28/CMP.1)

Reaffirms further that Annex I Parties that are Parties to the Kyoto Protocol are invited to provide funding to the Adaptation Fund, which will be additional to the share of proceeds of clean development project activities;

Option 3: *Decides* that the Adaptation Fund shall be financed from a share of proceeds from clean development mechanism (CDM) project activities and other sources of funding, including voluntary contributions by Parties and contributions by other entities such as foundations and the private sector;

5. *Decides* that the different sources of funding shall be tracked separately.

B. Monetizing the share of proceeds

(Note: This section could be discussed / finalized at later stage)

6. **Option 1:** *Decides* that [the entity operating the Adaptation Fund] [the secretariat servicing the CDM Executive Board and ITL] [Other] shall be responsible for monetizing the certified emission reductions issued for CDM project activities collected to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;

Decides that the monetization of certified emission reductions issued for CDM project activities collected to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, shall be undertaken in such a manner to:

- (a) Maximize revenue for the fund within the specified risk tolerance;
- (b) Ensure predictable revenue flow for the fund;

- (c) Be transparent and cost-effective;

Option 2: *Decides* that [on an interim basis] the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation as referred to in Article 12, paragraph 8, of the Kyoto Protocol shall be USD 0.X per certified emission reduction issued in a given calendar year;

Further decides to review these arrangements at its (##) session (date);

III. Modalities for operations

7. *Requests* the entity responsible for the operation of the Adaptation Fund:

Reporting/conduct of business

- (a) To report on its activities at each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
- (b) To hold regular consultations with developing countries outside formal processes;

Project cycle

- (c) To incorporate year-round submission, consideration and approval of adaptation project proposals;
- (d) To use an expedited processing system for [approval of adaptation project proposals] [and] [disbursement of funds];
- (e) To delegate authority to the implementing agencies to commit funds for a project following its own approval procedures while following a central overall approval process;

Financing and disbursement modalities

- (f) To avoid the use of the incremental cost concept;
- (g) To not have operational procedures that impose conditionalities on project approvals, such as co-financing;
- (h) To provide full-cost funding to eligible Parties to meet the additional costs of activities to adapt to the adverse effects of climate change;
- (i) To develop a co-financing scale for supporting activities identified by eligible Parties, taking into account their national circumstances;
- (j) To arrange that activities, identified by eligible Parties, that are not supported through full-cost funding as described in paragraph (h) above, will be co-financed through the scale referred to in paragraph (i) above;
- (k) To use a sliding scale to simplify calculation of fully funded additional costs of adaptation;
- (l) To ensure adequate geographic representation in access to Adaptation Fund resources;

Monitoring and evaluation

- (m) To have an independent monitoring and evaluation unit and ensure that its implementing agencies monitor and evaluate the adaptation projects they implement;
- (n) To be subject to independent reviews every (###) years;

IV. Eligibility criteria

(Note: This section could be discussed / finalized at later stage)

8. **Option 1:** *Decides* that developing country Parties to the Kyoto Protocol, especially those that are particularly vulnerable to the adverse effects of climate change, are eligible for funding from the Adaptation Fund to meet the costs of adapting to climate change.

Option 2: *Decides* that developing country Parties to the Kyoto Protocol, especially those that are particularly vulnerable to the adverse effects of climate change, are eligible for funding from the Adaptation Fund to meet the costs of adapting to climate change.

Decides further that priority shall be given to and a special window of funding created for:

- (a) Low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems;
- (b) Low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas, forested areas, and areas liable to forest decay, areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems;
- (c) Small island developing states;
- (d) Least developed country Parties;
- (e) Developing country Parties with projected higher risks in the near future, in particular those which do not already have a specific fund of their own;
- (f) Developing country Parties and regions where available information indicates that the impacts of climate change are likely to be severe;
- (g) Developing country Parties and regions prone to extreme weather events;

Option 3: *Decides* that low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems are eligible for funding from the Adaptation Fund to meet the costs of adapting to climate change;

V. Priority areas**A. Priority project activities**

9. **Option 1:** *Decides* that the Adaptation Fund shall finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol.

10. **Option 2:** *Decides* that the Adaptation Fund shall finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol. Concrete adaptation projects and programmes shall...

Option 2(a) ...be stage III activities (Measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1(b) and 4.4);

Option 2(b) ...be stage II (Measures, including further capacity-building, which may be taken to prepare for adaptation, as envisaged by Article 4.1(e)) and III activities (Measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1(b) and 4.4);

Option 2(c) ... have a maximum of 15 per cent of the budget for technical assistance and the majority of the budget for "actions in the field";

Option 2(d): ...implement adaptation measures, actions, and interventions on the ground to address the adverse impacts of climate change.

B. Priority sectors

11. **Option 1:** *Decides* that the Adaptation Fund shall finance activities identified in decision 5/CP.7, paragraph 8.

Option 2: *Decides* that the Adaptation Fund shall finance activities identified in decision 5/CP.7, paragraph 8....

Option 2 (a): ...as well as areas identified as priorities by relevant decisions, such as 1/CP.10 and 2/CP.11.

Option 2 (b): ...as well as:

- (a) Forestry
- (b) Sustainable livelihoods
 - Integrate adaptation into policy processes and planning frameworks for decision-making which require development of tools, methods, modelling for local level and technology for adaptation
 - Increase public awareness of the potential impacts of climate change and possible adaptation options and strategies, to enable decision-making at the individual and community levels
 - Capacity-building:
 - Disaster-proof communication systems
 - Awareness and training exercises
 - Preparedness for desertification and support for rain enhancement and water harvesting activities under capacity-building in the areas of preparedness and management of disasters relating to climate change
 - Sensitize policymakers to the impacts their decision-making may have on adaptive capacity
 - Explore the augmentation of insurance schemes for particularly vulnerable sectors such as subsistence agriculture
 - Economic diversification as a sub-theme of the five-year programme of work on impacts, vulnerability and adaptation to climate change:

- Promote understanding and development and dissemination of measures, methodologies and tools for economic diversification aimed at increasing economic resilience and reducing reliance on vulnerable economic sectors, especially for relevant categories of countries listed in Article 4, paragraph 8, of the Convention
- Improve quality of models, in particular those that assess the adverse impacts on social and economic development as consequence of the responses to climate change, taking into full account the legitimate priority needs of developing countries with specific emphasis on countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption, of fossil fuels and associated energy-intensive products

C. Identification of possible priority project activities

12. *Decides* that priority project activities shall be identified:
- (a) As priorities, inter alia, in national adaptation programmes of action (NAPAs), national communications, national sustainable development strategies, poverty reduction strategies and other relevant national plans;
 - (b) As thematic priority areas with links to development goals;
 - (c) As being of critical importance to human survival, and economic sustainability;
 - (d) As priorities for addressing specific problems, local capacity-building, technology transfer and the promotion of indigenous technological applications;
 - (e) As not stand alone projects;
 - (f) As bringing multiple benefits;
 - (g) As good examples for adaptation;

D. Complementarities of fund activities

13. *Decides* that the Adaptation Fund shall be complementary to and not duplicate other funds and assistance, in particular funding priorities and allocation of the special climate change fund and the least developed countries fund.

VI. Institution to manage the Adaptation Fund

14. **Option 1:** *Decides* that the following entity shall operate the adaptation fund:

Option 1 (a): The Global Environmental Facility (GEF) following the principles and operational modalities as contained in this decision.

Option 1 (b): The Multilateral Fund of the Montreal Protocol following the principles and operational modalities as contained in this decision.

Option 1 (c): United Nations Development Programme (UNDP) following the principles and operational modalities as contained in this decision.

Option 1 (d): United Nations Environment Programme (UNEP) following the principles and operational modalities as contained in this decision.

Option 1 (e): The Executive Board of the clean development mechanism following the principles and operational modalities as contained in this decision.

Option 2: *Establishes* a new committee/body under the direct supervision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and elected by COP/MOP, to manage/operate the Adaptation Fund, and designates:

[GEF][UNDP][UNEP][Multilateral Fund of the Montreal Protocol][World Bank][Other] to host the secretariat of the Adaptation Fund

[GEF][UNDP][UNEP][Multilateral Fund of the Montreal Protocol][World Bank][Other] to act as the trustee of the Adaptation Fund

[GEF][UNDP][UNEP][Multilateral Fund of the Montreal Protocol][World Bank][Other] to act as implementing agency(ies) of the Adaptation Fund.]
