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SUBMISSION OF THE GLOBAL ENVIRONMENT FACILITY (GEF) ON POSSIBLE ARRANGEMENTS FOR THE MANAGEMENT OF THE ADAPTATION FUND (FEBRUARY 13, 2006)

GEF

Global Environment Facility

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Submission of the Global Environment Facility (GEF) on Possible Arrangements for the Management of the Adaptation Fund

EXECUTIVE SUMMARY

In decision 10/CP.7, Parties to the UNFCCC decided that "the adaptation fund shall be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention, under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, with guidance to be provided by the Conference of the Parties in the period prior to entry into force of the Kyoto Protocol" (UNFCCC Decision 10/CP.7 para 4). Parties also invited "the entity referred to in paragraph 4 above to make the necessary arrangements for this purpose" (para 5). As an entity entrusted with the operation of the financial mechanism of the Convention, the Global Environment Facility (GEF) is well-positioned to serve as the appropriate entity to manage the Adaptation Fund.

The GEF combines the requisite financial competence with a broad mandate on global environment and sustainable development, a flexible legal structure, and a range of institutional partners essential to identify, support, implement, and evaluate adaptation projects to meet the needs of eligible Parties requesting assistance from the Adaptation Fund.

From its inception, the GEF has operated as a unique partnership among institutions, and was built around the competencies of Implementing Agencies from both the United Nations and the Bretton Woods systems. From this initial core of three GEF Implementing Agencies—the United Nations Development Program (UNDP); the United Nations Environment Program (UNEP); and the World Bank (IBRD)—the GEF family has grown to include additional agencies with the competencies to complement and expand upon those available through GEF's original partners. The range of GEF Executing Agencies now includes four regional development banks—AfDB, ADB, EBRD, and IDB—and three UN Agencies—FAO, IFAD, and UNIDO—with direct access to GEF funds in areas wherein they have demonstrated a core competence.

This inclusive and flexible structure is open to the incorporation of other institutions who work on key adaptation-related sectors, such as disaster risk management, public health, agriculture and food security, basic infrastructure, insurance, and the management of water resources.

The GEF is already playing a leading role in the field of adaptation, through the management of the Strategic Priority on Adaptation (SPA) using resources from the GEF Trust Fund, the Least Developed Countries Fund (LDCF), and the Special Climate Change Fund (SCCF). Under these financial instruments and consistent with Convention guidance, the GEF is presently managing commitments for financing adaptation of US$120m and has an active pipeline of adaptation projects under preparation. The implementation of the new Adaptation Fund should be coordinated with these existing programs in order to maximize the efficient and effective use of resources, which can most logically be accommodated through integrated GEF administration.

The GEF has repeatedly demonstrated its willingness and capacity to accommodate new ways of doing business that are necessary to respond to Convention guidance. The GEF is similarly prepared to respond flexibly to guidance from the Kyoto Protocol regarding the Adaptation Fund.

GEF offers a broad-based network of institutions and experience required to quickly and efficiently ensure the timely and effective operation of the Adaptation Fund.

1. BACKGROUND: INTRODUCTION TO THE GEF

1. The GEF was initially established as a pilot program in 1991 to provide financing to developing countries for projects aimed at the protection of the global environmental in four areas: biodiversity, climate change, international waters, and ozone depletion. A separate agreement was concluded among UNDP, UNEP and the World Bank that outlined the procedural arrangements for the GEF pilot phase.

2. At the UN Conference on Environment and Development (UNCED) in 1992, the GEF was recognized as a source of funding for relevant activities under Agenda 21 that may contribute to achieving global environmental benefits. UNCED and the Conferences of Plenipotentiaries adopting the UNFCCC and the Convention on Biological Diversity also called for the GEF pilot program to be restructured.

3. In 1994, governments agreed to a restructuring of the GEF, based on a continuing partnership among UNDP, UNEP and the Work Bank. Governments recognized the restructured GEF as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve global environmental benefits in its four focal areas (biodiversity, climate change, international waters, and ozone depletion).

4. In 2002, Governments participating in the GEF agreed to expand the GEF focal areas to include land degradation and persistent organic pollutants in support of the UN Convention to Combat Desertification and the Stockholm Convention on Persistent Organic Pollutants.

1.1 Structure of the GEF

5. The *Instrument for the Establishment of the Restructured GEF* outlines the governance and structure of the GEF. The GEF has:

(a) an *Assembly* consisting of representatives of all Participants that meets once every three to four years to review the GEF's general policies and to evaluate its operation;

(b) a *Council* consisting of 32 Members who represent constituency groupings of Participants formulated and distributed taking into account balanced and equitable representation of all Participants. There are 16 Members from developing countries, 14 Members from developed countries and 2 Members from countries with economies in transition. There are an equal number of Alternate Members with full power to act for an absent Member. Council Members are expected to reflect the views and positions of the countries in their constituency, and resources are provided to each Council Member to convene regular constituency meetings.

The Council meets twice a year, and it is responsible, among other things, for ensuring that GEF policies, programs, operational strategies and projects are

monitored and evaluated on a regular basis, reviewing and approving GEF work programs, approving operational modalities of the GEF, and acting as the focal point for the purpose of relations with the Conferences of the Parties to the Conventions for which the GEF serves as the financial mechanism.

(c) a *Secretariat* responsible for servicing and reporting to the Assembly and the Council;

(d) three *Implementing Agencies*: UNDP, UNEP and the World Bank; and

(e) a *Scientific and Technical Advisory Panel* that serves as an advisory body to the GEF.

6. Through decisions of the Council, seven additional agencies have been designated as Executing Agencies with direct access to GEF funding. These are: the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, the International Fund for Agricultural Development and the United Nations Industrial Development Organization.

7. The Implementing and Executing Agencies may make arrangements for GEF project preparation and execution by other multilateral development banks, specialized agencies and programs of the UN, other international organizations, bilateral development agencies, national institutions, non-governmental organizations, private sector entities and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution.

1.2 Operational Principles and Strategy for activities financed by the GEF Trust Fund

8. Following the successful restructuring of the GEF, the GEF Council sought input and guidance to develop an operational strategy that would inform and shape its programming efforts. The resulting Operational Strategy has served as the cornerstone for the GEF's work to date. It was developed in response to COP guidance from each of the relevant Conventions and was built upon a set of 10 Operational Principles. These principles—which include the overriding supremacy of Convention guidance, cost-effectiveness, country-drivenness, transparency, an emphasis on learning-by-doing, flexibility, stakeholder participation, eligibility as defined by the Conventions, the need for a catalytic approach, and the importance of monitoring and evaluation—have provided the foundation underlying all GEF programming and operations. These operational principles are listed in Box 1 below.

Box 1: Ten Operational Principles for Development and Implementation of the GEF's Work Program under the GEF Trust Fund

1. For purposes of the financial mechanisms for the implementation of the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change, the GEF will function under the guidance of, and be accountable to, the Conference of the Parties (COPs). For purposes of financing activities in the focal area of ozone layer depletion, GEF operational policies will be consistent with those of the Montreal Protocol on Substances that Deplete the Ozone Layer and its amendments.

2. The GEF will provide new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits.

3. The GEF will ensure the cost-effectiveness of its activities to maximize global environmental benefits.

4. The GEF will fund projects that are country-driven and based on national priorities designed to support sustainable development, as identified within the context of national programs.

5. The GEF will maintain sufficient flexibility to respond to changing circumstances, including evolving guidance of the Conference of the Parties and experience gained from monitoring and evaluation activities.

6. GEF projects will provide for full disclosure of all non-confidential information.

7. GEF projects will provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people.

8. GEF projects will conform to the eligibility requirements set forth in paragraph 9 of the GEF Instrument.

9. In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources.

10. The GEF will ensure that its programs and projects are monitored and evaluated on a regular basis.

Source: GEF Operational Strategy, 1995. Available at <http://www.gefweb.org/public/opstrat/ch1.htm

9. The UNFCCC held the first meeting of the Conference of Parties in March/April 1995. At that time, the COP provided initial guidance on eligibility criteria, program priorities, and policies for the financial mechanism, whose operation, on an interim basis, was entrusted to the

GEF. The GEF requested additional guidance from the COP on the development of an operational strategy. In response to this specific request, the COP approved:

> "a mixed strategy wherein projects will be selected with a double set of programme priorities as described in paragraph 9(c) of the [GEF] report, that is, if they met either one of the long-term programme priorities or one of the short-term programme priorities." (Decision 12/CP.1)

10. In response to this guidance, the GEF formulated the Operational Strategy in Climate Change, which initially included three Operational Programs (OP's) and a window for funding short-term response measures. In 2001, in response to further Convention guidance, a new Operational Program—OP11, *Sustainable Transport*—was developed and approved. Together with support for enabling activities, these programs formed the original core for GEF support to climate change as an entity entrusted with the operation of the financial mechanism of the UNFCCC.

11. In keeping with the MOU between the COP and the GEF Council, the GEF provides an annual report to the COP summarizing its activities. These reports are all available through either the UNFCCC web-site (www.unfccc.int) or the GEF web site (www.thegef.org).

1.3 Trustee

12. The World Bank acts as Trustee of the trust funds managed by the GEF, including the GEF Trust Fund, the Special Climate Change Fund, and the Least Developed Countries Trust Fund. In this capacity, it holds in trust the funds, assets and receipts which constitute each Trust Fund, and it manages and uses them only for the purposes of the Trust Fund concerned. The Trustee is accountable to the Council for the performance of its fiduciary responsibilities.

13. These responsibilities include; (a) the maintenance of appropriate records and accounts for each fund and providing for their audit in accordance with applicable World Bank policies and procedures, (b) the disbursement of monies from the funds in accordance with decisions made by the Council on the allocation of the funds' resources, (c) the investment of liquid assets in the funds, (d) the preparation of financial reports regarding the investment and use of the funds' resources; and (e) regular reporting to the Council on the status of the funds' resources. The privileges and immunities accorded to the World Bank under its Articles of Agreement apply to the property, assets, archives, operations and transactions of the funds.

14. In order to manage a number of major multi-donor trust fund, including the GEF and its related funds (i.e., the SCCF and LDC), the World Bank has developed over time robust systems of accounting, control and reporting infrastructure to manage these trust funds. This infrastructure has permitted the Bank to respond flexibly to donor requests to design and manage new and innovative trust funds. This extensive and well-tested trust fund infrastructure also permits the potential realization of cost savings, particularly where the new trust fund shares many of the characteristics of existing programs. This was the case for the SCCF and the LDC funds.

1.4 Evaluations of the GEF

15. Prior to each replenishment of the GEF Trust Fund, an independent evaluation of the GEF is prepared. Other issue-specific evaluations are continuously prepared by the independent Office of Evaluation at the request of the Council. The first Overall Performance Study of the GEF (OPS1, 1997) concluded that the GEF had generally performed effectively with regard to rapidly creating new institutional arrangements and approaches to programming its resources. It remarked that the GEF had also been relatively successful in leveraging co financing for GEF projects and had had some positive impacts on policies and programs in recipient countries. The independent team concluded that the progress made in the brief period of GEF1 and the potential for much greater success constituted a basis for building a much stronger GEF in the near future. OPS1 also concluded that the GEF had strictly implemented the guidance of the conventions with due regard for the GEF's own mandate and funding limitations in a reasonably timely fashion.

16. OPS2 (2001) concluded that GEF-supported projects have been able to produce significant results that address important global environmental programs. It also noted that the GEF is the only multi-convention financing facility in existence, and that it is the major source of funding specifically supporting international environmental agreements. OPS2 concluded that the GEF had been responsive to the global environmental conventions.

17. OPS3 (2005) found that the GEF has achieved significant results, particularly at the outcome level, in the focal areas of biodiversity, climate change, international waters and ozone depletion, and is well placed to deliver important results in the new focal areas of land degradation and persistent organic pollutants. The OPS3 team observed that good steps had been made in shifting from an approvals focus to a results and quality orientation, but that more remains to be done to focus on and manage results. With regard to the Conventions, OPS3 found that the GEF had been responsive to the guidance from the conventions, but called for more frank and timely exchange of ideas between the GEF Secretariat and the conventions with a view to furthering the agenda and success of the conventions within the context of the GEF. It concluded that the GEF had been particularly responsive in quickly mobilizing and implementing special trust funds, such as the Least Developed Countries Fund and the Special Climate Change Fund as mandated by the UNFCCC COP.

18. OPS3 also analyzed the GEF network. It noted that the GEF – based on its composition, structure, and division of roles and responsibilities – has the institutional form of a network. This form, established by the Instrument through its reliance on multiple entities working collaboratively together to accomplish common results, was seen as appropriate for achieving GEF goals. OPS3 concluded that, while there are a number of specific areas for improvement, the GEF overall is a more robust, stable, and effective institution in 2005 than it was at the time of OPS2.

2. HISTORY OF THE GEF RESPONSE TO UNFCCC GUIDANCE ON ADAPTATION

19. GEF support for adaptation has evolved in direct response to Convention guidance on adaptation. The GEF has acted in response to specific guidance from the COP to implement decisions, while also developing sound operational guidelines for approval by the GEF Council as the basis for preparing projects. From initial support to Stage I Adaptation in the context of enabling activities through planning studies undertaken in support of Stage II Adaptation to the establishment of the Strategic Pilot on Adaptation, the Least Developed Countries Fund, the Special Climate Change Fund, and preliminary work already undertaken to implement the Adaptation Fund, the GEF has worked steadily to expand the range of adaptation activities it supports in keeping with the expanded Convention guidance on the topic. With all of the activities currently under way within the GEF, this cumulative experience exceeds that of any other entity working on adaptation issues. GEF support for, and experience with, adaptation has grown in direct response to the guidance received from the Conference of Parties.

2.1 Stage I Adaptation: Enabling Activities

20. In its initial guidance to the GEF, COP 1 in Berlin included the following sections defining GEF's role in adaptation:

> (d) Regarding adaptation, the following policies, programme priorities and eligibility criteria should apply;
>
> > (i) Adaptation to the adverse effects of climate change, as defined by the Convention, will require short, medium and long term strategies which should be cost effective, take into account important socio-economic implications, and should be implemented on a stage-by-stage basis in developing countries that are Parties to the Convention. In the short term, the following stage is envisaged:
> >
> > - Stage I: Planning, which includes studies of possible impacts of climate change, to identify particularly vulnerable countries or regions and policy options for adaptation and appropriate capacity-building;
> >
> > (ii) In the medium and long term, the following stages are envisaged for the particularly vulnerable countries or regions identified in Stage I:
> >
> > - Stage II: Measures, including further capacity-building, which may be taken to prepare for adaptation, as envisaged by Article 4.1 (e);
> > - Stage III: Measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1 (b) and 4.4;

(iii) Based on the outputs of the Stage I studies, as well as other relevant scientific and technical studies, such as those of the Intergovernmental Panel on Climate Change (IPCC), and any emerging evidence of the adverse effects of climate change, the Conference of the Parties may decide that it has become necessary to implement the measure and activities envisaged in Stages II and III, consistent with the relevant conclusions of the Committee and with the provisions of the Convention.

(Decision 11/CP.1, paragraph 1 (d))

21. Based upon this guidance, the GEF made support available for countries to undertake vulnerability and adaptation assessments as part of the enabling activities for preparing initial national communications. From 1995 through 2005, the GEF supported enabling activities to prepare national communications in almost 140 countries. As part of the guidelines prepared for initial national communications, countries were encouraged, but not required, to undertake vulnerability and adaptation assessments and to include them in their national communications. Of the nearly $160m allocated to help countries prepare their initial national communications, well over half of the countries utilized some portion of GEF assistance to undertake V&A assessments.

2.2 Stage II Adaptation: Planning Studies and Related Activities

22. At its Fourth Meeting of the Conference of the Parties held in Buenos Aires in 1998, the COP provided additional guidance to the GEF relating to the funding of adaptation activities. COP Decision 2/CP.4 reads as follows:

1) Decides that, in accordance with Articles 4.3, 4.5 and 11.1 of the Convention, the GEF should provide funding to developing country Parties to:

a. Implement adaptation response measures under Article 4.1 of the Convention for adaptation activities envisaged in decision 11/CP.1, paragraph 1(d)(ii) (Stage II activities) in particularly vulnerable countries and regions identified in Stage I activities, and especially in countries vulnerable to climate-related natural disasters, taking into account their preparatory adaptation planning frameworks in priority sectors, the completion of Stage I activities, and in the context of their national communications;

(Decision 2/CP.4 paragraph 1)

23. In response to this guidance, the GEF sponsored a further round of adaptation projects, deepening the understanding of adaptation needs and opportunities. These projects (listed in

Box 2), undertaken in countries that might be considered to be particularly vulnerable, were expected to pave the way for future implementation of adaptation policies and measures[1].

Box 2 : Selected Activities for Stage II Adaptation
1) CPACC -- Caribbean Planning for Adaptation to Global Climate Change (CARICOM) (regional, WB) GEF \$6.82m; Total \$6.82m. 2) PICCAP -- Pacific Islands Climate Change Assistance Project (regional, UNDP) GEF \$3.44m Total 3.44 m 3) MACC -- Caribbean Mainstreaming Adaptation to Climate Change (regional, WB -- builds on CPACC) GEF \$5.98m Total \$9.64m. 4) Capacity Building for Stage II Adaptation to Climate Change (Central America , Mexico and Cuba) (regional, UNDP) GEF \$3.64; Total \$4.90m. 5) AIACC -- Assessments of Impacts and Adaptation to Climate Change in Multiple Regions and Sectors (global, UNEP) GEF \$8.23; Total \$12.46m.

24. These projects have helped build capacity and expand the level of knowledge of the risks of climate change in vulnerable countries. They also supported some of the first efforts to identify possible measures to adapt, especially in highly vulnerable countries in the Pacific, the Caribbean, and Central America. The AIACC project helped developing country scientists to participate in the IPCC process and also produced a vulnerability and adaptation synthesis that may provide a roadmap for further implementation of adaptation projects.

2.3 Beyond Stage II: Toward Implementation

25. In 2001, COP7 took a step forward in the adaptation agenda by agreeing upon several decisions that gave direct guidance to the GEF on adaptation as part of the Marrakech accords. In particular, guidance was provided to the GEF on implementing adaptation projects under the GEF Trust Fund and through three new funds that were to be set up to primarily (or exclusively) address adaptation: the Least Developed Countries Fund; the Special Climate Change Fund (SCCF); and the Adaptation Fund (AF).

2.3.1 Strategic Pilot on Adaptation (SPA)

26. Decision 5/CP.7 (reaffirmed by 6/CP.7) decided that the GEF should support, *inter alia*:

> Establishing pilot or demonstration projects to show how adaptation planning and assessment can be practically translated into projects that will provide real

[1] Included in this list of five projects are two projects (CPACC and PICCAP) approved prior to COP4 that incorporate both Stage I and Stage II Adaptation Activities. That these were approved prior to receipt of the COP4 guidance merely reflects the difficulties of separating Stage I from Stage II adaptation activities in practice.

benefits, and may be integrated into national policy and sustainable development planning, on the basis of information provided in the national communications from non-Annex I Parties and/or other relevant sources, and of the staged approach endorsed by the Conference of the Parties in its decision 11/CP.1. "

(Decision 5/CP.7 paragraph 7.b.v)

27. The GEF responded by approving the creation of a new strategic priority within the climate change focal area. This new strategic priority, entitled "Piloting an operational approach to adaptation (SPA)" was associated with an initial allocation of $50 million (GEF/C.23/Inf.8/Rev.1). It provided the GEF and its Implementing Agencies an opportunity to move from analysis and planning to the implementation of adaptation projects that also provide for the continued delivery of global environmental benefits in projects within the focal areas within which GEF works. To date, six projects valued at $12 million projects have been approved and are under implementation. Another six are under preparation and are already in the GEF pipeline. The total GEF funding for these approved and pipelined projects comes to about $ 30 million out of the initial $50m allocation from the GEF Trust Fund (See Box 3).

Box 3: Projects under the Strategic Priority on Adaptation (SPA) from the GEF Trust Fund

Approved Projects

1. Kiribati Adaptation Program – Pilot Implementation Phase (KAP-II) (GEF $2.07m; Total $6.69m) (WB)
2. Integrated National Adaptation Pilot: High Mountain Ecosystems, Colombia's Caribbean Insular Areas and Human Health (INAP) (GEF $6.07m; Total $17.47m) (WB).
3. Implementation of Pilot Adaptation Measures in coastal areas of Dominica, St. Lucia and St. Vincent & the Grenadines, Regional Caribbean (GEF $2.61m; Total $6.40m) (WB).
4. Lake Balaton Integrated Vulnerability Assessment, Early Warning and Adaptation Strategies, Hungary (GEF $1.13m; Total $4.07 m) (UNDP)
5. Adaptation Learning Mechanism: Learning by Doing (GEF $0.78m; Total $1.36m) (UNDP)
6. Integrating Vulnerability and Adaptation to Climate Change into Sustainable Development Policy Planning & Implementation in Southern & Eastern Africa (Kenya, Tanzania, & Mozambique—(GEF $1m; Total$2.25m) (UNEP).

Pipeline Projects:

1. Community-Based Adaptation Program (CBA) (UNDP);
2. Adaptation to Climate Change: Responding to Shoreline Change in West Africa (UNDPP;
3. Copying with Drought and Climate Change in Africa (UNDP); and
4. Sustainable Land Management under the Market-Oriented Smallholder Development Project in the Zambezi Valley, Mozambique (WB).

2.3.2 Special Climate Change Fund

28. Again in Decision 7/CP.7, the COP decided that:

> 2. …a special climate change fund shall be established to finance activities, programmes and measures, relating to climate change, that are complementary to those funded by the resources allocated to the climate change focal area of Global Environment Facility and by bilateral and multilateral funding, in the following areas:
>
> a. Adaptation, in accordance with paragraph 8 of decision 5/CP.7;
>
> b. Transfer of technologies, in accordance with decision 4/CP.7;
>
> c. Energy, transport, industry, agriculture, forestry and waste management;

d. Activities to assist developing country Parties referred to under Article 4, paragraph 8(h), in diversigying their economies, in accordance with decision 5/CP.7;

3. Decides further that Parties included in Annex II, and other Parties included in Annex I that are in a position to do so, shall be invited to contribute to the fund, which shall be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties;

(Decision 7/CP.7 paragraphs 2 and 3)

29. In response to Convention guidance, the GEF prepared a programming paper for the implementation of projects submitted under the SCCF and hosted a first pledging meeting in Paris in September 2004 mobilizing an initial endowment of $31 million. The programming paper developed and agreed upon for the SCCF demonstrated several innovative approaches that represent departures from previous GEF operations. First, it does not apply incremental cost reasoning, but rather defines the concept of "additional cost" that represents the costs imposed on a country's development due to the adverse impacts of climate change. Unlike the SPA, projects approved under the SCCF are not required to generate global environmental benefits. Second,, the SCCF paper proposed the use of a co-financing sliding scale approach to simplify the determination of eligible costs.

30. In September 2005, the SCCF pipeline was opened. Three projects, to be implemented in 12 countries, entered the GEF pipeline with an indicative allocation of $16.7 million. (See Box 4). In addition, one medium size project (MSP) focusing on the adaptation of water resources in the Pangani River Basin in Tanzania was approved in early 2006.

Box 4: Projects Under the SCCF

Full-Sized Pipeline Projects under Preparation for Submission to the SCCF:

1. Adaptation to Climate Change through Effective Water Governance, Ecuador (UNDP) SCCF (est. GEF $3.35m; Total $9.35m)
2. Piloting Climate Change Adaptation to Protect Human Health, Barbados and Fiji (low-lying developing), Uzbekistan and Jordan (desert/desert-fringe), Bhutan, Kenya and China (highland populations) (UNDP/WHO) SCCF (est. GEF $6.46m; Total $24.46m)
3. Design and Implementation of Pilot Climate Change Adaptation Measures in the Andean Region (WB) Bolivia, Ecuador, Peru, SCCF (est. GEF $7.29m; Total $27.39m).

Medium-Sized Project Approved under the SCCF:

Mainstreaming Climate Change in Integrated Water Resources Management in Pangani River Basin (UNDP) MSP Tanzania SCCF GEF $1.09m; Total $2.57m).

2.3.3 The Least Developed Countries Fund

31. In Decision 7/CP.7, the COP

6) Decides also that a least developed countries fund shall be established, which shall be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties, to support a work programme for the least developed countries. This work programme shall include, inter alia, national adaptation programmes of action in accordance with Section II, "Implementation of Article 4, paragraph 9, of the Convention", of decision 5/CP.7;

7) Invites the entity referred to in paragraph 6 above to make the necessary arranagements for this purpose and report thereon to the Conference of the Parties at its eight session for appropriate action;

8) Decides to provide guidance to the entity referred to in paragraph 6 above on the modalities fro operating this fund, including expedited access;

(Decision 7/CP.7, paragraph 6-8)

32. The GEF responded to this guidance by establishing the Least Developed Countries Fund to support the preparation of the NAPAs. A consultation with the LDC Experts Group (LEG) on the NAPA Guidelines was organized and held in Arusha, Tanzania, on February 28 and March 1,

2002. This consultation resulted in the development of "Operational Guidelines for the Expedited Funding for the Preparation of National Adaptation Programs of Action by Least Developed Countries" (GEF/C.19/Inf.7) which was approved by the GEF Council in May of 2002. With the collaboration of the Convention Secretariat, a workshop was held in Dhaka, Bangladesh in October 2002, to discuss the process of preparing NAPA's with representatives of LDC countries. On the basis of this paper and these consultations, two meetings were held with donors, the first in Stockholm in late 2002 and the next in Paris in late 2004. A total $40.5m was raised for the LDC Fund, of which $29.2m is still available for programming. To date, 46 LDCs have received funding for the preparation of NAPAs in keeping with the guidelines. At the time of this writing (February 2006) as many as one dozen LDC countries are in the process of finalizing their NAPA's.

33. With respect to the implementation of NAPAs, following COP10 in Buenos Aires, the Convention Secretariat facilitated initial consultations between the GEF, the LDCs, and other involved Parties to create an ongoing dialogue. The Parties approved guidance on NAPA implementation in Montreal at COP11 (Decision -/CP.11). A programming paper proposing operational guidelines and new modalities reflecting COP guidance is being prepared in close consultation with the LDCs.

34. A consultative meeting or workshop on NAPAs is to be held in Dhaka at the beginning of April 2006. Thereafter, a donors meeting is planned to mobilize additional resources for the LDC Trust Fund to implement projects that address the urgent and immediate adaptation needs identified in the NAPA's.

35. The LDCF programming paper under preparation will contain several innovations necessary to address adaptation and the special needs of the LDCs, including:

(a) a streamlined modality to accelerate the GEF project cycle;

(b) an additional costs approach which seeks to quantify the costs imposed on a country by the impacts of climate change;

(c) full-cost funding to be provided in those cases where it can be reasonably proven; and

(d) no expectation of demonstrating global environmental benefits.

36. In this case, the GEF has demonstrated considerable flexibility to respond effectively to the guidance of the Convention and to meet the specific needs expressed by the Parties.

37. As described above, the new operational guidelines introduced to address adaptation in projects financed by the LDCF and the SCCF show an innovative and flexible approach to GEF-managed operations. Existing GEF operational modalities and criteria utilized by the GEF Trust Fund that are inappropriate or not easily accommodated in the context of adaptation have been substituted with new and more appropriate modalities. This flexibility and responsiveness to COP guidance is expected to continue with the administration of the Adaptation Fund.

2.3.4 The Adaptation Fund

38. As part of the Marrakech accords, the COP decided to create an Adaptation Fund. The COP:

1) Decides that an adaptation fund shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Protocol, as well as activities identified in paragraph 8 of decision 5/CP.7;

2) Decides also that the adaptation fund shall be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding;

3) Decides further that Parties included in Annex I that intend to ratify the Kyoto Protocol are invited to provide funding, which will be additional to the share of proceeds on clean development mechanism project activities;

4) Decides also that the adaptation fund shall be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention , under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, with guidance to be provided by the Conference of the Parties in the period prior to entry into force of the Kyoto Protocol;

5) Invites the entity referred to in paragraph 4 above to make the necessary arrangements for this purpose;

(Decision 10/CP.7 paragraphs 2-5)

39. In response to this guidance, the GEF started a process to establish the adaptation fund, including, exploration of the modalities for the management of the CERs that represent the share of proceeds to be committed to the Adaptation Fund under the CDM. For this purpose, the GEF engaged in discussions with the UNFCCC Secretariat, and the Trustee's Office of the World Bank. The Trustee's office itself undertook separate discussions on the nature of the carbon market and the risks associated with converting the CER's devoted to the Adaptation Fund into money that can be used to support concrete adaptation projects. The results of these initial inquiries were included in the GEF report to the COP at its eleventh session. All further results obtained by the Trustee's office in examining the risks, opportunities and modalities for the monetization of the CER's will be reported to the COP/MOP at its next meeting.

3. The GEF Role as Manager of the Adaptation Fund

40. In accepting the request of the seventh session of the Conference of the Parties that the GEF should manage the three new trust funds established at COP7, the Council confirmed that

"In operating the funds, the GEF will emphasize a culture of quality and results while continuously striving to improve its responsiveness to countries and to the guidance of the Parties and to make its processes more streamlined and efficient. Additional streamlining of procedures to be applied specifically for purposes of one of the new funds are to depend upon factors such as emerging guidance, the size of the new funds and the size and nature of the projects they support".

(GEF/C.19/6 para4)

41. The Council also agreed that:

"The GEF will keep separate and distinct the program of activities financed by the GEF Trust Fund from those financed by each of the new funds established by the Conference of the Parties. Costs associated with operating each fund as well as those associated with activities to be financed from a particular fund will be charged to such fund. Separate accounts and reporting will be maintained. Once the funds become operational, a report on each fund will be submitted to the Council at each of its regular meetings".

(GEF/C.19/6 para 9)

42. Although the GEF adaptation portfolio is still relatively young, it has already established the GEF as a leading financier of climate change-related adaptation activities worldwide. If the amount currently under management from the SPA, the LDCF and the SCCF is combined with the cumulative support to V&A assessment under enabling activities (approximately \$60m[2]), the total exceeds \$180m. The hands-on experience that is being gained by the GEF partnership contributes to a large repository of information and experience with respect to adaptation to climate change. Together with the existing operations of the GEF in its six focal areas, they constitute the basis for the GEF's strengths in managing the proposed Adaptation Fund.

43. In particular, the GEF brings five unique advantages to the operation of the Adaptation Fund based upon its structure and its experience. These strengths are briefly discussed below.

44. **GEF's governance is transparent, universal, and oriented to respond to Convention guidance**: From the time of its restructuring, the GEF's first operational principle with respect to climate change activities has been to place its highest priority on implementing the guidance from, and being accountable to, the UN Framework Convention on Climate Change. The GEF has responded directly and promptly to the guidance provided by the COP in the establishment of all of its programming priorities, including those dealing with adaptation. At present, 176 countries participate in the GEF. These Participants come together once every three to four years in the Participants' Assembly. Normal GEF business is carried out through the Council, which meets twice per year to conduct the regular business of the GEF. Through the constituency

[2] Estimated at 30% of the \$140m devoted to enabling activities to date(, plus the Stage II Adaptation Activities listed in Box 2 (\$25m).

structure of the GEF Council, all participating countries are represented on the Council which makes decisions on a consensual basis.

45. **GEF has demonstrated flexibility**: The GEF has demonstrated flexibility in implementing Convention guidance and the related work programs. Maintaining sufficient flexibility to respond to changing circumstances is one of GEF's operational principles. It has demonstrated such flexibility in applying its procedures, interpreting its concepts, and in selecting its partner agencies. Procedural flexibility is demonstrated in the adoption of newer, expedited approval facilities for enabling activities and in the new approval procedures proposed for use in the LDC Fund. Conceptual flexibility is demonstrated in developing the principle of "additional costs" in place of "incremental costs" to better reflect the financing challenges facing adaptation. Agency flexibility is demonstrated in the selection of new agencies—such as FAO, UNIDO, IFAD as well as ADB, AfDB, IADB and EBRD—to supplement the traditional implementing agencies to meet the needs posed by GEF growth and the addition of new focal areas. GEF has responded quickly to implement COP guidance, and consults with those concerned to be sure that the GEF response encapsulates Parties needs.

46. **Already managing three sources of adaptation funding, GEF is uniquely positioned to provide structural learning and administrative simplification for the Adaptation Fund**; Adaptation to climate change is a relatively new field of intervention. As a result, early experiences will have a critical role to play in shaping the nature of the field, and in achieving success of adaptation interventions in contributing to greater resilience and responsiveness to the challenges of global warming and away from increased rigidity that would result in even greater vulnerability. The GEF is already placed stands at the center of adaptation funding through its management of the SPA, the LDCF and the SCCF and is able to ensure consistency between them. The early experiences of GEF adaptation projects are being added to the GEF knowledge base. In addition, the GEF has gathered important relevant experiences through its work in other focal areas: biodiversity, international waters, land degradation, and persistent organic pollutants. All of these areas have a role in contributing key lessons to adaptation efforts as natural ecosystem health appears to be a key to long-term ecosystem resiliency. The GEF is uniquely positioned to incorporate all of these lessons and experiences and to provide feedback from them to the particularly vulnerable parties at risk from the impacts of climate change. The work under the Adaptation Fund would benefit in quality from the lessons and experiences gleaned from these other sources of funding for adaptation and from work in other focal areas. As the entity managing the SPA, the SCCF, and the LDCF, the GEF is well-placed to simplify and assist Parties in directing their adaptation efforts and proposals to the correct funding sources. Having all of these proposals managed by the same network entity makes the re-direction from one fund to another a relatively simple matter—proposals have already been easily and readily redirected from the SPA to the SCCF for example.

47. **GEF's administrative structure provides a sound foundation for the Adaptation Fund**: The GEF Trust Fund has been managed by the World Bank's Trustee Office since 1991. It is independently audited, and public reports are made available on an annual basis. In recent years, the SCCF and the LDCF were established and operationalized by the GEF Secretariat, the

Trustee, and the Implementing Agencies under the supervision of the GEF Council. Because the Trustee was able to use the pre-existing infrastructure put in place for managing the GEF Trust Fund, the costs for the establishment of these new funds has been minimal. Their administrative and operational costs—while kept completely separate from those of the GEF Trust Fund—have been extremely low. A similar low-cost structure can be expected for the establishment of the Adaptation Fund. In addition to working with donor funds like the LDCF and SCCF, the Adaptation Fund will be charged with monetizing or encashing the 2% of the certified emission reductions (CER's) of the CDM that are being placed into the share-of-proceeds account for that purpose. This presents an additional challenge to the operator of the Adaptation Fund. Preliminary study of the carbon market by the Trustee has revealed that the market for CER's is quite thin and volatile and will be made up entirely of options trading until early 2007, in all likelihood. Rather than settling upon an administratively convenient approach, the Trustee has proposed that the best interests of the Adaptation Fund will be served by adopting an encashment strategy that seeks to maximize the value of the funds in a transparent, low-risk manner. This will require the implementation of a long-term, systematic encashment strategy. As the World Bank has been auctioning off bonds to meet the costs of its own operations for over 50 years, the Trustee has greater hands-on experience with this type of exchange than any other institution in the multilateral environment.

48. **The GEF is a network institution with diverse and wide ranging capacity to on the global environment and sustainable development**: The Adaptation Fund, like the adaptation program under the SCCF, is expected to focus on the challenges imposed by global warming on national development. Adaptation must be rooted in development efforts and lead to development that results in greater resiliency and responsiveness. The GEF, as a network institution, is built upon a primary partnership with the world's leading development agencies—UNDP and the World Bank—and the UN's lead agency on the environment—UNEP. Together, these three Implementing Agencies provide a core of know-how and expertise in development and the environment that cannot be equaled by any other combination of existing agencies. In cases where the expertise of other agencies can usefully supplement those of the GEF Implementing Agencies, the GEF has reached out to a group of Executing Agencies and provided them with direct access to GEF resources in their areas of expertise. This is another reflection of the ability of the GEF to be flexible to changing needs and circumstances. The GEF Instrument also explicitly provides for the Implementing and Executing Agencies to make arrangements for project preparation and execution by other international, regional, and national bodies, taking into account their comparative advantages in efficient and cost-effective project execution. The GEF's ability to respond from within its network, and when needed, to enlarge that network to meet the unmet needs of its participants is one of its greatest strengths.