



Global Environment Facility

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ANSWERS TO QUESTIONS SUBMITTED BY THE G77 AND CHINA TO THE UNFCCC ON THE ADAPTATION FUND

(Prepared by the Global Environment Facility Secretariat)

How would you work under the authority of and follow the guidance of the COP?

1. As agreed in the Instrument for the Establishment of the Restructured GEF, the GEF operates under the guidance of the Conference of the Parties to the UNFCCC for activities in the climate change focal area. In addition, in other focal areas, it operates under guidance from the COP of the Convention on Biological Diversity (UNCBD) and the Stockholm Convention on Persistent Organic Pollutants (POPS). The GEF reports to each Conference of the Parties for which it serves a financial mechanism function on how it has implemented its guidance and on all the activities financed in the relevant focal area.
2. According to the UNFCCC and the Instrument for the Establishment of the Restructured GEF, the COP provides guidance to the GEF relating to policies, programme priorities, and eligibility criteria. In turn, the GEF translates this guidance into operational policies and guidelines and, through its network of Implementing and Executing Agencies, finances projects that implement the guidance.
3. Guidance from the COP for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) requests the GEF to achieve specific results and in some circumstances to adopt new operational policies and procedures for each fund. As a result, GEF has agreed on operational policies and procedures necessary under the LDCF and SCCF to fulfill the guidance from the COP.
4. The GEF Council has confirmed that for purposes of the Adaptation Fund (AF), it will operate under the guidance of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol.

How would you propose to address access to the Adaptation Fund in view of the guidance already agreed?

5. According to the COP/MOP, all developing countries that are Parties to the Kyoto Protocol are eligible to access resources from the AF. Therefore, all developing country parties will be eligible to receive support from the AF.

How would you operate/manage the fund in the context of a country-driven approach? In the context of a learning by doing approach?

6. As its first criterion for approval, the GEF requires that a project be country-driven. Each project must be endorsed by the country's designated operational focal point, and the focal point must confirm that the project is consistent with the country's policies and priorities.
7. Projects must demonstrate country drivenness in the form of continued commitment to the project's goals, to the adoption or intention to adopt necessary regulations and legislation, as well as to providing a record of meaningful stakeholder consultations resulting in an open and transparent project design.
8. The learning-by-doing approach is a long-standing principle followed by the GEF and its Implementing and Executing agencies. Projects that are under implementation are fine-tuned

through a process of adaptive management, so that they are able to use existing best practices to adjust to new challenges. Lessons learned are integrated into future projects. Independent mid-term and final evaluations of every project are undertaken in order to improve project implementation and to share information to improve the quality of similar projects under preparation and implementation.

9. The GEF is also working with its independent Evaluation Office and GEF agencies to strengthen its knowledge management systems so as to widely disseminate GEF lessons learned.

**Would your institution establish its own set of eligibility criteria for access to the fund?
How would this be undertaken and how would this relate to the COP/MOP?**

10. As is the case with the GEF Trust Fund, the COP/MOP is expected to provide guidance on eligibility criteria for the AF. The GEF will develop operational rules and practices consistent with that guidance and report to the COP/MOP on how it has implemented its guidance.

Would you propose conditions such as co-financing as a criterion for accessing the Adaptation Fund?

11. The GEF will not develop co-financing conditions unless requested to do so through COP guidance. Based upon experience to date with adaptation projects under the strategic pilot on adaptation (SPA), the SCCF, and the LDCF, it is worth noting that the large majority of all adaptation interventions are related to development activities, such as agriculture, water supply, health, infrastructure, and disaster risk management. Adaptation initiatives normally become part of larger development financing initiatives. These other development resources provide de facto co-financing for adaptation interventions.

12. How would you propose to address the issue of complementarity with respect to the other funds established to address adaptation under the Convention?

13. Complementarity between the various sources for adaptation funding has been established in direct response to COP guidance. Under the GEF Trust Fund, adaptation projects are primarily used to reduce vulnerability of ecosystems and are financed if they lead to global environmental benefits. By comparison, support from the LDCF and the SCCF is primarily related to human development needs and address the adverse impacts of climate change, including climate variability.

14. Resources of the LDCF are available only to the Least Developed Countries that are party to the convention. Its resources are aimed at financing their urgent and immediate adaptation needs.

15. All non-Annex I Parties are eligible for support under the SCCF, which is available to finance adaptation needs in virtually all development sectors, extending even to programming for long-term adaptation needs. The COP identified priority areas of interventions under the SCCF, such as water resources management, agriculture, health, infrastructure development, fragile ecosystems, and integrated coastal zone management.

16. To date, guidance from the COP and the COP/MOP for adaptation activities under the SCCF and the AF is identical. Two options may be envisioned to further define the complementarity between the two funds: 1) the funding of adaptation under the SCCF Adaptation may be considered a pilot for larger financing to be made available under the AF or 2) the COP/MOP may provide additional guidance to distinguish between the objectives and activities of the two funds.

What administrative and management expenses would apply to the Adaptation Fund, on what basis and for what activities?

17. As is the case with the LDCF and the SCCF, the administrative and management costs of the AF are expected to be borne by the fund. This will include the actual costs of the Trustee in establishing the fund and administering the finances of the fund. It will include the staff costs of managing the programming of the funds. The costs required by the Trustee and the GEF Secretariat will be proposed for approval on an annual or bi-annual basis to the governing body of the Fund.

18. Each fund will also be expected to cover the services of the Implementing and Executing agencies to prepare, implement, and evaluate the projects financed by the fund. The costs of any independent evaluations of the operations of the AF will also be met through the resources of the fund.

How would you propose to maintain the autonomy of the Adaptation Fund?

19. Administratively, the AF would be completely independent from all other funds managed by the GEF. Its governance system will reflect the COP/MOP guidance. It is recognized that different options for a governing structure of the AF are currently under discussion.

Would you be able to keep a separate account/budget line for these funds?

20. Yes. The LDCF and SCCF are already managed through a separate account with their own budget lines. The GEF Secretariat reports on the status and activities of the two funds to each GEF Council meeting.

How would you keep these funds independent of your guidelines and procedures meant for other funds that you may be managing?

21. The guidelines and procedures for the AF will be developed independently of the existing guidelines and procedures for other funds managed by the GEF, and the GEF would report regularly to the COP/MOP on such guidelines and procedures. For both the SCCF and LDCF, separate operational guidelines consistent with the guidance from the COP have been prepared, reviewed, and approved by the GEF Council as the basis for programming under those funds. These guidelines are also provided to the COP in the GEF's annual report to the COP.

What decision-making structure would you apply to the operation/management of the Adaptation Fund?

22. The GEF Council will be reviewing at a Special Council meeting to be held in August 2006, in Cape Town, South Africa, issues related to the governance of the climate change funds established by the seventh session of the COP. This includes the AF. It is expected that the Council decision will address issues regarding the decision-making structure of the AF. Further information on the discussions of the Council will be submitted to the Convention Secretariat following the Council meeting for dissemination to the COP/MOP.

What decision-making structure would you apply to the implementation of guidance from the COP/MOP?

23. Consistent with GEF experience with the conventions for which it serves as a financial mechanism, COP/MOP guidance provided to the GEF will be reflected in the operational policies and guidelines for the AF. The GEF will report to the COP/MOP on how the guidance is implemented.

What decision-making structure would you propose to apply to any questions arising in connection with the application of guidance from the COP/MOP?

24. As stated above, the GEF operates in compliance with COP guidance. There is an ongoing dialogue between the GEF and the COP. The GEF regularly reports to the COP about its operations and its response to guidance. Any questions arising in connection with the application of guidance from the COP or the COP/MOP can be raised in this dialogue. Guidance seeking further clarification may then be given to the GEF, as appropriate.

What approach would you take to facilitate sound financial management and transparency in your management of the Adaptation Fund?

25. As is the case with the LDCF and the SCCF, the GEF will ensure sound financial management and transparency in the operational management of the AF.

26. The International Bank for Reconstruction and Development (IBRD—the World Bank) would exercise the same standard of care in the discharge of its functions as Trustee in respect to this fund as it exercise in its own affairs.

27. The IBRD acting as Trustee would invest the Contribution Funds pending disbursement of funds in an instrument in which IBRD is authorized to invest its own funds. The IBRD acting as Trustee shall credit all investment income to the AF for use for the same purposes as the Contribution funds.

28. The IBRD acting as Trustee would maintain separate records and ledger accounts in respect of the AF and disbursements thereof. For as long as any resources remain in the AF, the Trustee would report to the CEO quarterly on the status of resources in the AF and would provide the Council with an annual financial statement with respect to the fund. Such financial statement would be prepared in United States dollars.

29. The GEF Secretariat will report to each meeting of the governing body of the AF on both resources and programming.

How would you propose to handle the AF in the context of a possible management committee established by the COP/MOP?

30. Should a management committee be established by the COP/MOP, the GEF Council will need to consider how best to interact with the management committee approved by the COP/MOP. The GEF has agreed to act in accordance with the guidance of the Convention on policies, program priorities, and eligibility criteria. In accordance with paragraph 20g of the GEF Instrument, the Council has agreed to “act as the focal point for the purpose of relations with the Conferences of the Parties, including consideration, approval and review of the arrangements or agreements with such Conferences, receipt of guidance and recommendations from them and compliance with requirements under these arrangements or agreements for reporting to them.”

What independent auditing systems would you apply to the management of the AF?

31. The GEF will apply the same auditing systems to the Adaptation Fund as it does to the operations under the GEF Funds. As required, the Trustee can:

- (a) provide, within six months following the end of each IBRD fiscal year, a management assertion, together with an attestation from the IBRD’s external auditors concerning the adequacy of IBRD’s internal controls over financial reporting for trust funds as a whole – the cost of such attestations shall be borne by the IBRD;
- (b) or, the IBRD as Trustee can cause the annual financial statement prepared by IBRD with respect to the AF to be audited by IBRD’s external auditors and shall forward a copy of such auditors’ report to the Council. The Trustee would deduct the cost of such auditors from the AF.

How would you propose to handle separate accounts for funds other than those funds coming from the share of proceeds of CDM projects that come into the AF?

32. Under existing guidance from the COP, the entity operating the AF is not requested to separate the 2% of the proceeds of the CDM from additional donor contributions to the AF. If, in future guidance, this separation of share of proceeds from donor contributions is requested, then procedures will be put in place to keep these funds separate.

Would you propose to mobilize additional funds and how?

33. The GEF has extensive experience in mobilizing funds, including four replenishments of the GEF Trust Fund.

34. Initial mobilization for the LDCF (approximately \$100 million) and the SCCF (approximately \$50 million – a pledging meeting for the adaptation window of the SCCF is planned for this coming fall) provides further evidence that the GEF is willing and able to

mobilize funds for these additional climate change funds through a broad consultation process in which meetings of interested donors are held to discuss programming needs and to obtain pledges.

35. As the adverse impacts of climate change are already affecting vulnerable countries with low adaptive capacity, there is an urgent need to mobilize additional resources for adaptation. The GEF is in the process of scheduling another donor's consultation to raise additional funds for the SCCF. The GEF would actively engage in working with donors to mobilize additional funds for the operationalization of the AF.