



# Global Environment Facility

GEF/C.32/5/Rev.1

November 5, 2007

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GEF Council Meeting  
November 14-16, 2007

Agenda Item 7

## NOTE ON THE ADAPTATION FUND

## **Recommended Decision**

The Council, having reviewed document GEF/C.32/5 “*Note on the Adaptation Fund*,” takes note of the information included in it and endorses the recommendation that the GEF continue to adopt a flexible approach to the establishment and operationalization of the Adaptation Fund in response to decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP).

The Council notes the progress achieved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol in negotiating an agreement on the Adaptation Fund.

The Council authorizes the GEF CEO and Chair to communicate to the Conference of the Parties, serving as the meeting of the Parties of the Kyoto Protocol at its Third session to be held in Bali in December 2007, the GEF’s flexibility, including as to the governance of the Adaptation Fund, and the GEF’s willingness to support a COP/MOP decision, should one be made, requesting the GEF Secretariat to function as the Secretariat of the Adaptation Fund.

Subject to the decisions of the COP/MOP and notwithstanding any prior GEF Council decision, the GEF Council will endorse the establishment of a new Adaptation Fund Governing Body and will confirm its support for the selection of the GEF Secretariat to function as the Secretariat of the Adaptation Fund.

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Annex I: UNFCCC COP and COP/MOP Decisions on the Adaptation Fund

## 1. INTRODUCTION

1. At the Third session the Conference of the Parties, serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) to be held in Bali in December 2007, one of the main agenda items will be the management of the Adaptation Fund (AF). The GEF is currently the only entity that has made a formal submission to the UNFCCC Secretariat for the management of the AF, in response to COP/MOP decision 5/CMP.2. The COP/MOP has so far focused on principles and modalities of the AF, and is carrying out consultations to conclude an agreement on the last pending issues including which entity will manage the fund and its governance. This Note focuses on the remaining issues related to the structure and governance of the AF and describes some of the options under consideration as background. This Note invites the GEF Council to discuss and address the concerns raised by some Kyoto Protocol Parties concerning the flexibility of the GEF to accept a new governance structure for the AF. In addition, the decision recommended at the beginning of this Note would give to the CEO and Chair a mandate to communicate to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its Third session to be held in Bali in December 2007, the GEF's flexibility, including as to the governance of the AF, and the GEF's willingness to support a COP/MOP decision, should one be made, requesting the GEF Secretariat to function as the Secretariat of the AF.

## 2. UNFCCC COP AND KYOTO PROTOCOL COP/MOP DECISIONS ON THE ADAPTATION FUND (AF)<sup>1</sup>

### COP Decision 10/CP.7

2. As part of the Marrakech accords in 2001, the COP established the AF in decision 10/CP.7 "*Funding under the Kyoto Protocol*." The decision:

- (a) established the AF to finance concrete adaptation projects and programs in developing country Parties;
- (b) decided that the AF would "be financed from the share of proceeds on the Clean Development Mechanism (CDM) project activities and other sources of funding;" and
- (c) invited "an entity entrusted with the operation of the financial mechanism of the Convention" to manage and operate the fund and to make the necessary arrangements for this purpose.<sup>2</sup>

**Excerpts from Decision 10/CP.7 "*Funding under the Kyoto Protocol*"**  
(Marrakech, Morocco – November 2001)

The Conference of the Parties, [...]

- 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 [...];

<sup>1</sup> The full text of the COP/MOP decisions discussed in this section are set forth in Annex I.

<sup>2</sup> Decision 10/CP.7 "*Funding under the Kyoto Protocol*".

- 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; [...]
- 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 [...];
- Invites the entity referred to [above] to make the necessary arrangements for this purpose; [...]

### **COP/MOP Decision 28/CMP.1**

3. At its First session in Montreal (November 2005), the COP/MOP adopted decision 28/CMP.1 “*Initial guidance to the entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund.*” Following the entry into force of the Kyoto Protocol, this decision started a process mostly focused on reaching an agreement on principles and modalities of the AF, postponing the discussion on the organizational management of the fund for a future COP/MOP.

#### **Excerpts from Decision 28/CMP.1 “*Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund*”**

(Montreal, Canada – November 2005)

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

- 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;
- Decides that the operation of the Adaptation Fund shall be guided by the following:
  - (a) A country-driven approach
  - (b) Sound financial management and transparency
  - (c) Separation from other funding sources
  - (d) A learning-by-doing approach
 [...]

### **COP/MOP Decision 5/CMP.2**

4. At its Second session in Nairobi (November 2006), the COP/MOP adopted decision 5/CMP.2 “*Adaptation Fund.*” This decision provides principles, modalities and some key governance elements for the operationalization of the AF.

#### **Excerpts from Decision 5/CMP.2 “*Adaptation Fund*”**

(Nairobi, Kenya – November 2006)

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

Decides that the Adaptation Fund shall be guided by the following **principles**:

[...]

- Access to the fund in a balanced and equitable manner for eligible countries;
- Transparency and openness in the governance of the fund;
- Funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change;
- The Adaptation Fund should operate under the authority and guidance of and be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which shall decide on its overall policies;
- Accountability in management, operation and use of the funds;
- No duplication with other sources of funding for adaptation in the use of the Adaptation Fund;
- Efficiency and effectiveness in the management, operation and governance of the fund.

Decides that the Adaptation Fund shall operate with the following **modalities**:

- Funding for eligible Parties will be available for national, regional and community level activities;
- Facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities;
- Projects should be country driven [...];
- Funding shall be available for concrete adaptation projects [...]; [...]
- Competency in adaptation and financial management;
- Sound financial management, including the use of international fiduciary standards; [...]
- Independent monitoring and evaluation; [...]

Decides that membership of the **governing body** of the Adaptation Fund shall be from Parties to the Kyoto Protocol, follow a one-country-one-vote rule and have a majority of Parties not included in Annex I to the Convention; [...]

### Update on the negotiations on the AF at the Subsidiary Body for Implementation (SBI)

5. At the twenty sixth session of the Subsidiary Body for Implementation (SBI 26, May 2007), Kyoto Protocol Parties further agreed on provisions for addressing eligibility criteria, priority areas and monetization of the share of proceeds of certified emission reductions (CERs) from clean development mechanism (CDM) project activities for covering costs of adaptation.<sup>3</sup>

6. At the SBI meeting, KP Parties also agreed to consider institutional arrangements needed for the AF to become fully operational, based on a list of “Points for discussion on institutional arrangements on the AF.”<sup>4</sup> The list of points focuses on the structure and governance of the AF, including three options for the composition of the governing body and a decision-making process. The entity that will host the Secretariat, however, is still undecided. The draft is open for suggested edits and revisions.

#### **Excerpts from: *Points for discussion on institutional arrangements of the Adaptation Fund*** (Bonn, Germany – May 2007)

[With respect to the **governing body** established to supervise the operations and management of the Adaptation Fund, the draft decision includes three proposals for its composition]:

[...]

Proposal 1:

- Fair and balanced regional representation based on the United Nations regional groups;
- A seat for the Alliance of Small Island States (AOSIS);
- A seat for least developed countries;
- Representatives to be nominated by relevant groups and appointed by the CMP.

Proposal 2:

- A seat for each of the United Nations regional groups;
- A seat for AOSIS;
- Two seats for Parties included in Annex I to the Convention;
- Two seats for Parties not included in Annex I to the Convention;
- Each member of the governing body shall have an alternate member, selected from the same constituency,

<sup>3</sup> These provisions are contained in a negotiating text contained in annex 1 to the SBI conclusions.

<sup>4</sup> This list of points is contained in annex II to the SBI conclusions.

who shall represent the member in their absence.

**Proposal 3:**

- Constituency representation based on the Kyoto Protocol Parties (comment: this proposal needs to be further elaborated).

**Decision-making process:**

- Decision 5/CMP.2, paragraph 3: one country one vote rule.
- Decisions shall be taken by consensus, whenever possible.
- If all efforts at reaching a consensus have been exhausted and no agreement has been reached, there is need for voting.

(Note: A Proposal on majority voting is needed).

**Functions:**

- To supervise and guide the operations and management of the Adaptation Fund;
- To develop, decide and monitor the implementation of specific operational policies and guidelines, [...] subject to guidance provided by the CMP;
- To approve projects, including the allocation of funds in line with the operational policies and programmes adopted by the CMP;
- To review regularly the performance reports on the implementation of activities supported by the Adaptation Fund;
- To report on its activities to each session of the CMP; [...]

**Operations - Rules of Procedure:**

[...]

Proposal 1: The governing body is to develop and adopt any rules of procedure additional to those included in this decision.

Proposal 2: The governing body shall, at its first meeting, develop any rules of procedure additional to those included in this decision for approval by the CMP at its subsequent session.

(Note: If proposal 2 is selected, there might be need to refer to provisional application of rules of procedures until the CMP approves it.)

[...]

**Trustee:** The trustee shall comply with principles and modalities for operations stipulated in decision 5/CMP.2 as well as guidance by the CMP on arrangements for the monetization of certified emission reductions. [...]

**Implementing Agencies:**

Proposal 1: Eligible Parties shall be able to select from a wide range of implementing agencies [...]. Implementing agencies could be added as needs are identified by eligible Parties. [...]

Proposal 2: Eligible Parties shall be able to access funds directly from the Adaptation Fund, without having to implement projects through an implementing agency.

**Review:**

- The CMP shall undertake regular reviews within set timelines. [...]

### 3. SYNOPSIS OF GEF SUBMISSIONS ON THE ADAPTATION FUND TO THE UNFCCC

7. The GEF has made a formal submission to the UNFCCC to manage the AF in response to decision 5/CMP.2. Specifically, the GEF has presented to the UNFCCC Secretariat three consecutive submissions,<sup>5</sup> as per COP/MOP's request, on its availability and competence to manage the AF.

#### ***First Submission: Submission of the Global Environment Facility (GEF) on Possible Arrangements for the Management of the AF (February 2006)***

8. With this submission the GEF provided a comprehensive description of its structure, operational principles, the role of the governing body, the Implementing and Executing Agencies, and the Trustee, as well as the role of the Office of Evaluation and the independent evaluations carried out to verify the quality and the performance of GEF-financed projects and GEF policies.

9. This submission also included a section describing in some detail the specific programs and activities that the GEF initiated in response to COP/MOP guidance, especially with respect to adaptation to climate change. The submission concluded with the list of strengths of the GEF as a possible entity to manage the AF. These included:

- (a) Flexibility – demonstrated by changing rules and governance to respond to adaptation needs and COP guidance (for example in the Least Developed Countries fund (LDCF) and the Special Climate Change Fund (SCCF);
- (b) Expertise – managing three existing sources to finance adaptation projects, the GEF is uniquely positioned to provide structural learning and administrative simplification to the AF;
- (c) Experience – existing administrative structure provides a sound foundation for the AF that is transparent and neutral;
- (d) Structural Diversity – the GEF structure as a network with ten agencies provides a wide and diverse range of expertise on sustainable development and environment necessary to achieve the goals of the AF.

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<sup>5</sup> All submissions are available on the GEF website: [www.thegef.org](http://www.thegef.org): GEF/C.29/Inf.2 *Submission of the GEF on possible arrangements for the management of the Adaptation Fund (First Submission)*; GEF/C.29/Inf.4 *Answers to questions submitted by the G77 and China to the UNFCCC on the Adaptation Fund (Second Submission)*; and LDCF.SCCF/2/Inf.6 *Views on how the GEF would operationalize Decision -/CMP.2 of the COP serving as the MOP to the KP on the Adaptation Fund (Third Submission)*



***Second Submission: Answers to questions by the G77 and China to the UNFCCC on the AF (August 2006).***

10. This submission states, *inter alia*, that the governance structure of the AF will reflect COP/MOP guidance and the AF will be completely separate from all the other funds managed by the GEF.

***Third Submission: Views on how the GEF would operationalize decision 5/CMP.2 of the Conference of the Parties (COP) serving as the meeting of the Parties (MOP) to the Kyoto Protocol on the AF (February 2007)***

11. The third and last submission responds to the 5/CMP.2 decision from COP12 in Nairobi, which lists principles, modalities and governing body of the AF and asks entities prepared to manage the fund to explain how they would follow them. The GEF submission, even though significantly restructured in its format, reiterates the main concepts of the first and second submissions, as well as providing additional information on financing the full costs of adaptation, and its legal and professional capacity to serve the AF's Governing Body.

**4. COUNCIL DECISIONS ON THE AF**

12. As mentioned above, at COP7 in 2001, the GEF Council had understood that the COP had asked the GEF to manage three funds: the LDCF and SCCF under the Convention, and the AF under the Kyoto Protocol. Consequently, in 2002 a Council decision welcomed the establishment of these new funds to be managed by the GEF, including the AF, and adopted the document "*Arrangements for the establishment of the new climate change funds.*" (GEF/C.19/6).

13. Discussions of the UNFCCC COP 11, in November 2005, returned to the issue of which entity would manage the AF. At its next meeting in June 2006, the GEF Council approved the document "*Status Report on the Climate Change Funds*" (GEF/C.28/4/Rev.1) and included in its decision specific language referring to the negotiations on the AF and reaffirming the availability and capacity of the GEF to manage the Fund.

14. The most recent Council decision on the AF was adopted in August 2006, at the Special Council meeting held before the GEF Assembly in Cape Town, South Africa. The document, "*Governance of the Climate Change Funds*" (GEF/C.29/5), includes several innovative elements as background for a new GEF approach to managing multiple funds. First, the decision approved the establishment of a separate Council, the LDCF/SCCF Council, as the decision-making body for the management of the LDCF and the SCCF. The document also indicated that, when managing a fund that is separate and independent from the GEF Trust Fund, the GEF is allowed to apply decision-making procedures that differ from those included in the Instrument, as those procedures refer only to the structure, governance and operations of the GEF Trust Fund.

15. In this previous decision (GEF/C/29.5), the Council "agrees that in the case of the AF, the Council would meet as the Council for the AF" and agrees to a formal voting procedure to be determined by the Council for the AF, "following further guidance of the COP/MOP and taking into account the GEF Instrument." This Note invites the Council to adopt a new decision that

would overrule this section of GEF/C.29/5 and would enable the GEF Secretariat to function as a Secretariat for the AF under the requirements of the COP/MOP decisions.

## **5. DESCRIPTION OF POSSIBLE OPTIONS ON GOVERNANCE OF THE AF IN THE CONTEXT OF THE UNFCCC**

16. With respect to the governance of the AF, the Secretariat sought the views of World Bank legal staff. Their response<sup>6</sup> indicated that the Instrument itself authorizes the GEF to fulfill other operational functions besides managing the GEF Trust Fund, and that there are no legal impediments for the GEF Secretariat to function as the Secretariat of the AF and its Executive Board/Council (or other title). Moreover, any fund managed by the GEF, which is not established by virtue of the Instrument for the Establishment of the Restructured Global Environment Facility, such as the AF, would not be bound by the Instrument's rules, and could therefore apply decision-making procedures that differ from those included in the Instrument<sup>7</sup>.

17. As a further note for clarification responding to questions raised by some Parties, selecting the GEF as the entity to manage the fund and the GEF Secretariat to function as the Secretariat of the AF and its Governing Body would not imply acceptance of any specific policies or practices existing under the GEF Trust Fund, such as the Resources Allocation Framework (RAF).

18. As highlighted in Section 2, variables and parameters for the AF still under discussion include: the number of members of the Governing Body, the format of the constituencies (similar of those in GEF or with regional representation), agreement on a voting system, balance between developing and developed Party representatives, the role of Implementing Agencies and/or direct access to funding. With respect to the governance of the fund, it might be illustrative to consider and compare two existing governance structures based on institutions that are currently managing funds with elements of the AF, as agreed by the COP/MOP, namely: (1) a new governing structure based on the GEF submission; and (2) a new governing structure based on regional representation, such as the MLF.

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<sup>6</sup> GEF/C.29/5 “*Governance of the Climate Change Funds.*”

<sup>7</sup> In this communication the WB legal office referred specifically to the LDCF and SCCF; however, it is clear from the communication that the principle allowing the GEF to manage a new fund under rules that are distinct from the GEF instrument is not limited to the LDCF and SCCF but would apply to a separate and independent adaptation fund.

MLF Exec Board	GEF Council limited to Kyoto Protocol Parties	Adaptation Fund
<p>Board:</p> <p>EC 14 members (7 industrialized, 7 developing) They are nominated by their regional groups and endorsed by the COP</p>	<p>Council:</p> <p>32 members. 16 from developing countries, 14 from developed countries (13 if Parties to the Kyoto Protocol) and 2 from economies in transition</p>	<p>Governing Body:</p> <p>Parties to the Kyoto Protocol, follow a one-country-one-vote rule and have the majority of non Annex I countries</p>
<p>Voting:</p> <p>Decisions by consensus<sup>8</sup>. If needed, voting with two thirds majority where you need 10 votes minimum, including 4 industrialized and 4 developing countries.</p>	<p>Voting:</p> <p>Decisions by consensus. If needed, a formal vote will be taken by a double weighted majority: an affirmative vote representing both a 60% majority of the total number of participants and a 60% of the total contributions</p>	<p>Voting:</p> <p>Decisions by consensus; if no agreement is reached by consensus, there is need for voting.</p> <p>(Note: A Proposal on voting is needed).</p>

19. These examples have been described to stimulate discussion. A combination of different options and/or new and innovative structural elements may be envisioned by the COP/MOP as the optimal solution.

## 6. CONCLUSIONS

20. Consistent with COP/MOP guidance, and taking into account the different options described above, the following proposal is suggested as a contribution to the consultations being undertaken by the COP/MOP:

*The Council authorizes the GEF CEO and Chair to communicate to the Conference of the Parties, serving as the meeting of the Parties of the Kyoto Protocol at its Third session to be held in Bali in December 2007, the GEF's flexibility, including as to the governance of the Adaptation Fund and the GEF's willingness to support a COP/MOP decision, should one be made, requesting the GEF Secretariat to function as the Secretariat of the Adaptation Fund.*

*Subject to the decisions of the COP/MOP and notwithstanding any prior GEF Council decision, the GEF Council will endorse the establishment of a new Adaptation Fund Governing Body and will confirm its support for the selection of the GEF Secretariat to function as the Secretariat of the Adaptation Fund.*

21. In effect, the GEF Council clearly states its support for the GEF Secretariat to function as the Secretariat of a Governing Body for the AF, if one is established by the COP/MOP, even where the Governing Body is wholly independent of the GEF Council, with the independent structure and choices for representation as decided by the COP/MOP. For this purpose, the

<sup>8</sup> Decisions to be taken by consensus if possible. Otherwise, "two-thirds majority of the Parties present and voting, representing a majority of the Parties operating under paragraph 1 of Article 5 and a majority of the Parties not so operating and voting". In other words you need a minimum of 10 votes, including 4 from Art 5 (eligible for assistance) and 4 from non Art 5.

Council gives to the GEF CEO and Chair the mandate to communicate on the part of the GEF to the COP/MOP at its Third session to be held in Bali in December 2007, the GEF's flexibility, including as to the governance of the AF, and a willingness to support a COP/MOP decision, should one be made, requesting the GEF Secretariat to function as the Secretariat of the AF.

## **ANNEX I**

### **UNFCCC COP AND COP/MOP DECISIONS ON THE ADAPTATION FUND**

## **Decision 10/CP.7**

### **Funding under the Kyoto Protocol**

*The Conference of the Parties,*

*Recalling* Articles 10, 11 and 12, paragraph 8, of the Kyoto Protocol,

*Recalling also* its decisions 11/CP.1 and 15/CP.1,

*Recalling further* its decision 5/CP.6, containing the Bonn Agreements on the implementation of the Buenos Aires Plan of Action,

*Recognizing* that funding should be made available to Parties not included in Annex I which is new and additional to contributions under the Convention,

*Recognizing also* that appropriate modalities for burden sharing need to be developed,

*Welcoming* the statements made at the second part of the sixth session of the Conference of the Parties by most Parties included in Annex II<sup>1</sup> on their willingness to commit themselves to provide funding,

*Welcoming also* the joint political declaration made by the European Community and its member States, together with Canada, Iceland, New Zealand, Norway and Switzerland, on their preparedness to collectively contribute €450 million/US\$ 410 million annually by 2005, with this level to be reviewed in 2008,

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;

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<sup>1</sup> Joint political declaration by the European Community and its member States, together with Canada, Iceland, New Zealand, Norway and Switzerland, and a statement by Japan. For the text of the political declaration and the statement by Japan see document FCCC/CP/2001/MISC.4.

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

6. *Decides* that Parties included in Annex I that intend to ratify the Kyoto Protocol shall report on their financial contributions to the fund on an annual basis;

7. *Decides also* to review the reports referred to in paragraph 6 above on an annual basis, and that, upon entry into force of the Kyoto Protocol, such reports are to be reviewed by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

*8<sup>th</sup> plenary meeting  
10 November 2001*

## **Decision 28/CMP.1**

### **Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of 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* decisions 5/CP.7, 10/CP.7 and 17/CP.7,

*Recognizing* 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 particularly vulnerable to the adverse effects of climate change,

*Recognizing* the need to operationalize the Adaptation Fund as soon as possible,

*Taking note of* the proposed arrangements for the Adaptation Fund presented by the Global Environment Facility as an entity entrusted with the operation of the financial mechanism of the Convention, as contained in paragraph 31 of the report of the Global Environment Facility to the Conference of the Parties (FCCC/CP/2005/3 and Corr.1),

*Noting* that the Adaptation Fund shall be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding,

*Recognizing* that adaptation to climate change is an integral part of ongoing efforts for sustainable development,

1. *Decides* that the Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol, as well as activities identified in decision 5/CP.7, paragraph 8;
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;
3. *Decides* that the operation of the Adaptation Fund shall be guided by the following:
  - (a) A country-driven approach
  - (b) Sound financial management and transparency
  - (c) Separation from other funding sources
  - (d) A learning-by-doing approach;
4. *Decides* to adopt further guidance on policies, programme priorities and eligibility criteria for the operation of the Adaptation Fund, at its second session;
5. *Invites* Parties to submit to the secretariat, by 13 February 2006, their views on specific policies, programme priorities and eligibility criteria for consideration by the Subsidiary Body for Implementation at its twenty-fourth session (May 2006);
6. *Further invites* Parties and relevant international organizations to submit to the secretariat, by 13 February 2006, their views on possible arrangements for the management of the



Adaptation Fund for consideration by the Subsidiary Body for Implementation at its twenty-fourth session;

7. *Requests* the secretariat to organize, before the twenty-fourth session of the Subsidiary Body for Implementation, subject to the availability of resources, a workshop to promote an exchange of views on further guidance for the operation of the Adaptation Fund.

*9<sup>th</sup> plenary meeting  
9–10 December 2005*

## **Decision 5/CMP.2**

### **Adaptation Fund**

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

*Recognizing* that Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities and that, accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof,

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

*Recalling* its decisions 3/CMP.1 and 28/CMP.1,

*Recalling also* decisions 5/CP.7, 10/CP.7, 17/CP.7,

1. *Decides* that the Adaptation Fund shall be guided by the following principles:
  - (a) A share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
  - (b) Access to the fund in a balanced and equitable manner for eligible countries;
  - (c) Transparency and openness in the governance of the fund;
  - (d) Funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change;
  - (e) The Adaptation Fund should operate under the authority and guidance of and be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which shall decide on its overall policies;
  - (f) Accountability in management, operation and use of the funds;
  - (g) No duplication with other sources of funding for adaptation in the use of the Adaptation Fund;
  - (h) Efficiency and effectiveness in the management, operation and governance of the fund;
2. *Decides* that the Adaptation Fund shall operate with the following modalities:
  - (a) Funding for eligible Parties will be available for national, regional and community level activities;
  - (b) Facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities;
  - (c) Projects should be country driven and should clearly be based on needs, views and priorities of eligible Parties, taking into account, inter alia, national sustainable development strategies, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist;

- (d) Funding shall be available for concrete adaptation projects and programmes in eligible countries;
- (e) Ability to receive contributions from other sources of funding;
- (f) Competency in adaptation and financial management;
- (g) Sound financial management, including the use of international fiduciary standards;
- (h) Clearly defined responsibilities for quality assurance, management and implementation;
- (i) Independent monitoring, evaluation and financial audits;
- (j) Learning by doing;

3. *Decides* that membership of the governing body of the Adaptation Fund shall be from Parties to the Kyoto Protocol, follow a one-country-one-vote rule and have a majority of Parties not included in Annex I to the Convention;

4. *Requests* the Subsidiary Body for Implementation to develop recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its third session with the aim of adopting a decision on the following issues:

- (a) Eligibility criteria;
- (b) Priority areas;
- (c) Monetizing the share of proceeds;
- (d) Institutional arrangements;

5. *Invites* interested institutions to submit to the secretariat, by 23 February 2007, their views on how they would operationalize this decision;

6. *Requests* the secretariat to compile the submissions mentioned in paragraph 5 above into a miscellaneous document for consideration by the Subsidiary Body for Implementation at its twenty-sixth session;

7. *Requests* the Chair of the Subsidiary Body for Implementation to organize, with the assistance of the secretariat and subject to the availability of resources, consultations among Parties before the twenty-seventh session of the Subsidiary Body for Implementation with the aim of exchanging views on issues defined in paragraph 4 above and recommending possible ways forward.

*10<sup>th</sup> plenary meeting  
17 November 2006*



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**SUBSIDIARY BODY FOR IMPLEMENTATION**

**Twenty-sixth session**

**Bonn, 7–18 May 2007**

**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 submission on the views from an interested institution on how it would operationalize decision 5/CMP.2 (FCCC/SBI/2007/MISC.2).
2. The SBI considered views from Parties on eligibility criteria, priority areas and monetization of the share of proceeds for the Adaptation Fund, and agreed on a negotiating text for a draft decision to be completed with, inter alia, elements on institutional arrangements (see annex I).
3. The SBI noted a paper prepared by the co-chairs of the contact group convened on the Adaptation Fund containing some points for discussion on institutional arrangements for further consideration by the SBI at its twenty-seventh session (December 2007) (see annex II).
4. The SBI agreed to organize, in accordance with decision 5/CMP.2, with the assistance of the secretariat and subject to the availability of resources, consultations among Parties to discuss, inter alia, views and proposals for institutional arrangements, before the twenty-seventh session of the SBI.
5. The SBI agreed to continue its deliberations on this matter at its twenty-seventh session, on the basis of the negotiating text referred to in paragraph 2 above and taking into account, inter alia, the paper referred to in paragraph 3 above, with a view to preparing a draft decision for adoption by the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol at its third session.

ANNEX I

**Negotiating text for draft decision -/CMP.3: 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* its decisions 3/CMP.1, 28/CMP.1 and 5/CMP.2,

1. *Decides* that developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change are eligible for funding from the Adaptation Fund to assist in meeting the costs of adaptation;
2. *Decides* that the Adaptation Fund shall finance concrete adaptation projects and programmes that are country driven and are based on needs, views and priorities of eligible Parties;
3. *Decides* that the entity<sup>1</sup> operating the Adaptation Fund shall be responsible for the monetization of certified emission reductions issued by the Executive Board of the clean development mechanism and forwarded to the Adaptation Fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
4. *Decides* that the monetization of certified emission reductions referred to in paragraph 3 above shall be undertaken so as to:
  - (a) Ensure predictable revenue flow for the Adaptation Fund;
  - (b) Optimize revenue for the Adaptation Fund while limiting financial risks;
  - (c) Be transparent and monetize the share of the proceeds in the most cost-effective manner, utilizing appropriate expertise for this task.
5. *Requests* the entity<sup>1</sup> operating the Adaptation Fund to report annually to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on the monetization of certified emission reductions;
6. *Decides* to review all matters relating to the Adaptation Fund at its XX session.<sup>2</sup>

(Note: Text on institutional arrangements to be added)

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<sup>1</sup> The final reference will depend on the agreed text on institutional arrangements.

<sup>2</sup> To be placed at the end of the final draft decision.

## ANNEX II

**Points for discussion on institutional arrangements of the Adaptation Fund**

*This paper is a proposal by the co-chairs of the contact group (CG) on the Adaptation Fund based on the views expressed at an informal closed meeting that took place on 14 May 2007. It reflects only discussions related to institutional arrangements.*

**(1) Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol:**

Decision 5/CMP.2, paragraph 1 (e): The Adaptation Fund shall operate under the authority and guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) which shall decide on its overall policies.

**(2) Governing body:**

**Structure:**

A governing body shall be established to supervise the operations and management of the Adaptation Fund.

**Composition:**

Decision 5/CMP.2, paragraph 3:

- Parties to the Kyoto Protocol;
- Majority of Parties not included in Annex I to the Convention.

Proposal 1:

- Fair and balanced regional representation based on the United Nations regional groups;
- A seat for the Alliance of Small Island States (AOSIS);
- A seat for least developed countries;
- Representatives to be nominated by the relevant groups and appointed by the CMP.

Proposal 2:

- A seat for each of the United Nations regional groups;
- A seat for AOSIS;
- Two seats for Parties included in Annex I to the Convention;
- Two seats for Parties not included in Annex I to the Convention;
- Each member of the governing body shall have an alternate member, selected from the same constituency, who shall represent the member in their absence.

Proposal 3:

Constituency representation based on the Kyoto Protocol Parties (*comment: this proposal needs to be further elaborated*).

*(Note: Proposals need to clarify how the composition will apply the 'one country one vote' rule.)*

*(Note: Need to define the number of members/size of the governing body.)*

**Decision-making process:**

Decision 5/CMP.2, paragraph 3: one country, one vote rule.

Decisions shall be taken by consensus, whenever possible.

If all efforts at reaching a consensus have been exhausted and no agreement has been reached, there is need for voting.

*(Note: A proposal on majority voting is needed.)*

**Functions:**

- To supervise and guide the operations and management of the Adaptation Fund;
- To develop, decide and monitor the implementation of specific operational policies and guidelines, including programming guidance and administrative arrangements subject to guidance provided by the CMP;
- To approve projects, including the allocation of funds in line with the operational policies and programmes adopted by the CMP;
- To review regularly the performance reports on the implementation of activities supported by the Adaptation Fund;
- To report on its activities to each session of the CMP;
- To perform such other functions as may be assigned to it by the CMP.

**Operations:**

Number of meetings:

Proposal 1: X meetings a year while retaining the flexibility to convene additional meetings where special circumstances make this desirable.

Proposal 2: Have flexibility to convene meetings depending on the workload.

Rules of procedure:

Proposal 1: The governing body is to develop and adopt any rules of procedure additional to those included in this decision.

Proposal 2: The governing body shall, at its first meeting, develop any rules of procedure additional to those included in this decision for approval by the CMP at its subsequent session.

*(Note: If proposal 2 is selected there might be need to refer to provisional application of rules of procedures until the CMP approves it.)*

Expertise:

The governing body may draw on expertise required to perform its functions.

A secretariat to support the governing body:

The governing body shall be supported by a secretariat.

*(Note: The institution hosting the secretariat needs to be defined.)*

**(3) Trustee:**

The trustee shall comply with principles and modalities for operations stipulated in decision 5/CMP.2 as well as guidance by the CMP on arrangements for monetization of certified emission reductions.

The governing body shall be responsible for selecting the trustee.

**(4) Implementing agencies:**

## Proposal 1:

Eligible Parties shall be able to select from a wide range of implementing agencies depending on the needs of these Parties. Implementing agencies could be added as needs are identified by eligible Parties.

Implementing agencies shall be able to comply with modalities stipulated in decision 5/CMP.2.

*(Note: Reference was made to the need to develop additional standards to implementing agencies but they were not specified.)*

## Proposal 2:

Eligible Parties shall be able to access funds directly from the Adaptation Fund, without having to implement projects through an implementing agency.

**(5) Review:**

The CMP shall undertake regular reviews within set time-lines.

Time-lines for review shall provide for enough time for implementation (i.e. 3 or 4 years).

Independent evaluations and audits of projects and programmes shall also be conducted *(decision 5/CMP.2, para. 2 (i)).*

Consideration of a trial period on all arrangements.

*(Note: Paragraph 6 of negotiating text agreed at CG already refers to a review of all matters relating to the Adaptation Fund at its XX session.)*

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