



Global Environment Facility

GEF/LDCF.SCCF.2/Inf.6

May 29, 2007

LDCF/SCCF Council Meeting
June 15, 2007

SUBMISSION OF THE GLOBAL ENVIRONMENT FACILITY (GEF) TO THE UNFCCC SECRETARIAT

VIEWS ON HOW THE GEF WOULD OPERATIONALIZE DECISION -
/CMP.2 OF THE CONFERENCE OF THE PARTIES
SERVING AS THE MEETING OF THE PARTIES
TO THE KYOTO PROTOCOL ON THE ADAPTATION

INTRODUCTION

1. This information paper is presented to ensure that interested members of the LDCF/SCCF Council have readily available to them the document that was provided to the UNFCCC Secretariat in February 2007 regarding how the GEF would propose to operationalize the guidance provided by the Second Conference of Parties serving as the Meeting of Parties to the Kyoto Protocol with respect to the Adaptation Fund.

2. This document was submitted to the UNFCCC Secretariat for presentation to the Twenty-Sixth Meeting of the Subsidiary Body for Implementation, where it served as the basis for discussion. The UNFCCC Secretariat added a cover page and published the document under the title “Views from Interested Institutions on how they would operationalize Decision 5/CMP.2”. It is also available under that title at the UNFCCC web-site www.unfccc.int as FCCC/SBI/2007/Misc.2.

February 23, 2007

**Submission of the Global Environment Facility (GEF)
to the UNFCCC Secretariat**

**Views on how the GEF would Operationalize Decision -/CMP.2 of the
Conference of the Parties serving as the
Meeting of the Parties to the Kyoto Protocol on the Adaptation Fund**

1. In decision -/CMP.2, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol invited institutions interested in managing the Adaptation Fund to submit their views on how they would operationalize that decision. This paper is being submitted in response to that invitation.
2. The GEF has operated as an entity of the financial mechanism for the UNFCCC since the Convention entered into force. In this capacity, it has gained experience in working with the non-Annex I parties to assist them in meeting the objectives of the Convention. As provided in Article 11 of the Convention, the GEF functions under the guidance of, and is accountable to, the Conference of the Parties, which decides on its policies, program priorities and eligibility criteria.
3. At its seventh session, the Conference of the Parties to the UNFCCC requested the GEF to manage the Least Developed Countries Fund, the Special Climate Change Fund and the Adaptation Fund. The GEF has successfully operationalized the LDCF and SCCF. Funding is being provided to developing countries for activities pursuant to the guidance provided by the COP for those funds. The GEF continues to be ready to manage the Adaptation Fund should it be invited by the COP/MOP to do so, and commits to operate under the authority and guidance of the COP/MOP in managing the fund.
4. In response to two previous requests from the COP/MOP, the GEF has submitted information on its network structure, skills, expertise, experience and comparative advantages that it would bring to managing the Adaptation Fund¹. These submissions are annexed to this note for easy reference. Parties are invited to consult these earlier submissions for a comprehensive overview of the qualifications of the GEF to manage the Adaptation Fund.
5. This paper will provide additional information responding specifically to the principles and modalities agreed upon in decision -/CMP.2.

¹ *Submission of the Global Environment Facility (GEF) on Possible Arrangements for the Management of the Adaptation Fund* (First Submission, February 13, 2006); *Answers to Questions submitted by the G77 and China to the UNFCCC on the Adaptation Fund* (Second Submission, August 11, 2006)

1. GENERAL PRINCIPLES

6. The GEF has reviewed the principles listed in decision -/CMP.2 and fully commits to manage the Adaptation Fund in conformity with them. Several of these principles have been extensively discussed in previous submissions. Therefore this submission will touch upon those principles for which new or additional information can usefully be provided.

7. The GEF also notes that a share of proceeds from certified project activities will be used to cover administrative expenses as well as to assist developing country parties to meet the costs of adaptation, and will facilitate a process aimed at achieving the best arrangements for the establishment of the fund.

Specific Principles

1(b) Access to the fund in a balanced and equitable manner for eligible countries.

8. Balanced and equitable access to financing under the Adaptation Fund will require procedures to avoid a “first-come, first-served” use of the resources. The GEF will work with countries interested in accessing the fund to identify their national priorities and to determine how best to program and sequence financing from the fund. The Adaptation Fund Council will have a role in monitoring that funds are allocated to all countries interested in receiving financing and in a regionally-balance manner. The Council for the Fund will also be requested to consider programming guidelines aimed at ensuring that the supply of resources can be matched with country demand for financing. Further discussion within the COP/MOP on factors to be taken into account in approving projects under the Adaptation Fund could usefully contribute to a balanced programming of the resources.

1(c) Transparency and openness in governance of the fund.

9. Transparency and openness are key principles of the GEF. The GEF has two governing bodies: the Council and the Assembly. The Council is comprised of 32 Council Members representing all member states of the GEF grouped into constituencies. 18 constituencies are composed of recipient countries and 14 constituencies are composed principally of non-recipient countries. The 18 recipient country constituencies are distributed among four geographic regions: Africa, Asia and Pacific, Latin America and Caribbean, and Central, Eastern Europe and Former Soviet Union. The non-recipient constituencies are formed through a process of consultation among interested member countries.

10. Each constituency is responsible for appointing its Member and Alternates. The GEF provides resources to all developing country Council Members to enable them to hold two constituency meetings a year, prior to each Council meeting, so that they can fully represent the interests of their constituents. Financing is provided to the Council Members and Alternates from developing countries to facilitate their participation in Council meetings.

11. Any member State may observe Council meetings. Secretariats of the global environmental conventions associated with the GEF are also invited to observe Council meetings. NGOs are represented in the meeting and may intervene in the Council deliberations.

12. If decisions of the Council are to be taken by vote, each Member of the Council is to cast the votes of the Participant or Participants he/she represents. A Member may cast separately the votes of each Participant in the constituency he/she represents. Votes cast by each Member on behalf of each Participant are recorded in the Chairs' joint summary of the meeting.

13. The documentation for the Council and all joint summaries of Council meetings are public documents, and these are posted on the GEF website.

14. The Assembly is convened every three to four years at the ministerial level. All member States are invited to participate. The documentation for, and proceedings of, the Assembly are public documents posted on the website. The Assembly is open to a wide group of international and intergovernmental organizations and NGOs interested in the mandate of the GEF.

1(d) Funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change.

15. In managing the Adaptation Fund, funding would be available to finance the full costs of adaptation to address the adverse impacts of climate change. The GEF has already been engaged in supporting projects that finance the full costs of adaptation through the LDCF, which includes a specific modality providing for full-cost funding.

1(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

16. The GEF confirms that it would 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.

17. As an operating entity of the financial mechanism of the UNFCCC, the GEF functions under the guidance of, and is accountable to, the Conference of the Parties (see Article 11 of the Convention). Arrangements to give effect to this relationship were agreed in the Memorandum of Understanding that was approved by the COP and the GEF Council. While the term *authority* is not referred to in Article 11 of the UNFCCC, the GEF has placed high priority on implementing UNFCCC guidance and exercising its accountability to the Parties through the arrangements specified in the Memorandum of Understanding.

18. It may be noted that in its role as a financial mechanism of Convention on Biological Diversity (CBD) and the Stockholm Convention on Persistent Organic Pollutants (POPs), the GEF functions under the *authority* and guidance of, and is accountable to, the respective Conference of the Parties.

1(f) Accountability in management, operations and use of the funds.

19. The GEF is currently managing the GEF Trust Fund, the LDCF and the SCCF. Consistent with COP guidance and related Council decisions, the GEF keeps separate and distinct the program of activities financed by the GEF Trust Fund from those financed by each of the new funds. Costs associated with operating each fund as well as those associated with activities to be financed by a particular fund are charged to each fund.

20. The GEF Council and the LDCF/SCCF Council are responsible for keeping under review the operation of the funds with respect to their purposes, scope and objectives. The Councils direct the utilization of the funds, review the availability of resources, and approve and review the operational modalities of the funds. Regular reports on the use of the funds are provided to the relevant Council and to the Conference of the Parties. The same principle and procedures would apply to the Adaptation Fund, and regular reports on the use of the funds would be provided to the COP/MOP and the Council for the Adaptation Fund.

21. The World Bank operates as the Trustee of the trust funds managed by the GEF, including the GEF Trust Fund, the Least Developed Countries Fund and the Special Climate Change Fund. The Trustee reports to the relevant Council at each of its meeting about the payment status and funding status of each fund.

22. All these documents are public, accessible and posted on the GEF website (www.thegef.org).

1(g) No duplication with other sources of funding for adaptation in the use of the Adaptation Fund.

23. The GEF already manages three different sources of funding for adaptation: the strategic pilot under the GEF Trust Fund; the LDCF; and the Adaptation Program under the SCCF. Consistent with COP guidance and a related Council decision, the GEF keeps the program of activities financed by the GEF Trust Fund separate and distinct from those financed by each of the funds established by the Convention of the Parties.

24. Complementarity between the various sources for adaptation funding has been established in direct response to COP guidance. Should the GEF be chosen to manage the Adaptation Fund, it will continue to ensure complementarity and avoid duplication between the funds. Table 1 below highlights the different elements of the existing funds. To the extent that there is any overlap in the guidance from the COP and the COP/MOP with respect to adaptation activities to be financed under various funds, it is expected that the COP and the COP/MOP will seek to avoid duplication through their evolving guidance. The GEF will continue to adopt criteria consistent with COP or COP/MOP guidance, to differentiate the portfolio of each fund.

Table 1: Complementarity between the GEF Trust Fund and the new funds on adaptation

| SPA (GEF Trust Fund) | LDCF | SCCF |
|--|---|---|
| Eligibility: Countries eligible under 9(a) or 9(b) of the GEF Instrument | Eligibility: LDC Parties to the UNFCCC | Eligibility: developing country Parties to the UNFCCC |
| Adaptation is linked to natural resources management and generation of global environmental benefits | Adaptation is linked to development. No requirement of global environmental benefits. | Adaptation is linked to development. No requirement of global environmental benefits. |
| Mostly addresses the vulnerability of ecosystems where climate change is cause of biodiversity loss and land degradation or impacts international waters | Urgent and immediate adaptation needs identified in NAPAs | Adaptation in areas of interventions defined by the COP (water, agriculture, health, infrastructure, disaster risk management and prevention, among others) |
| Incremental cost of global environmental benefits | Full cost of adaptation/additional cost ² | Full cost of adaptation/additional cost |
| Funding required for baseline activities through Co-financing | Additional costs of adaptation added to existing development financing | Additional costs of adaptation added to existing development financing |
| SPA projects are funded from a regional/global set-aside from the RAF system | No RAF (RAF non applicable to LDCF) | No RAF (RAF non applicable to SCCF) |

1(f) Efficiency and effectiveness in the management, operation and governance of the fund.

25. The choice of the GEF to manage the Adaptation Fund would be efficient and cost-effective. Some of the key elements of efficiency and effectiveness include:

- (a) use of the existing GEF network, which has the largest number of development agencies, and whose work is facilitated by an independent Secretariat that does not implement or execute projects;
- (b) use of the World Bank as Trustee. The World Bank has broad experience in managing trust funds. The costs of the Trustee to manage the Adaptation Fund would be minimal as they would be able to use many of the systems already in place for the other GEF trust funds;
- (c) low transaction costs, building on GEF systems;
- (d) established systems for working with multiple agencies;
- (e) established, knowledgeable and experienced Secretariat staff for all technical, operational and administrative functions; and
- (f) links with other funding and focal areas.

² Decision 3/CP.11: “Further guidance for the operation of the Least Developed Countries Fund”

2. MODALITIES

26. This section responds to each operational modality listed in decision –/CMP. 2.

2(a) Funding for eligible parties will be available for national, regional, and community-level activities.

27. The GEF has accumulated significant experience over the past two decades in developing and implementing projects at the national, regional and global levels. In addition, the GEF has financed a large number of community-based projects through the GEF Trust Fund and the climate change funds.

28. The wide range of different expertise, capacity and experiences of the GEF agencies provide the GEF with a broad range of partners to assist it in fully meeting this modality. Steps have recently been taken to ensure that all ten agency partners have equal opportunities to contribute to the GEF's mandate.

2(b) Facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities.

29. On the basis of a recent evaluation of the GEF project cycle and modalities, the GEF is currently redesigning and expediting its processes for approval of project funding. The GEF Council will review and approve a new project cycle in June 2007. The new project cycle will reduce the time between project identification and implementation, increase cost effectiveness and reduce administrative costs.

30. In response to COP guidance, steps have already been taken towards a streamlined project cycle for the LDCF. Innovations include project submissions on a rolling basis, reduced steps in the project cycle, and an expedited system for Council approval of projects on a “no-objection” basis. The streamlined procedures of medium-sized projects (MSPs) will be utilized for projects requesting an LDCF grant up to \$2 million (a doubling of the \$1 million ceiling for MSPs under the GEF Trust Fund). Under the MSP procedures, Council authority to approve projects is delegated to the CEO.

31. The GEF finances a program of national and sub-regional policy level dialogues and consultations aimed at strengthening country ownership and involvement in GEF co-financed projects. The main objectives of the GEF *National Dialogue Initiative* are to assist participating countries by:

- (a) promoting in-depth understanding of the GEF's strategic directions, policies and procedures;
- (b) strengthening country coordination and ownership in GEF operations and sharing lessons learned from project implementation; and

- (c) fostering greater mainstreaming of GEF activities into national planning frameworks and coordination and synergies amongst the GEF focal areas and convention issues at the national level.

32. To support country focal points, the GEF launched the Country Support Program (CSP) in March 2006. The program finances activities to build the capacity of focal points to design, implement, coordinate, and monitor GEF projects. Moreover, it promotes genuine country ownership of GEF-financed activities and will facilitate active involvement of recipient countries' governments and civil society stakeholders.

33. Moving forward, efforts will be made to ensure that the Adaptation Fund benefits from all continuous efforts in the GEF to expedite processing of eligible activities.

2(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.

34. As its first criterion, a GEF-financed project must be country-driven. Each project is to be endorsed by the country's designated operational focal point, and the focal point is to confirm that the project is consistent with the country's policies and priorities. Through GEF-funded activities and the mainstream activities of its partners, the GEF is uniquely placed to ensure that activities to be financed under the Adaptation Fund are responsive to national sustainable development strategies, poverty reduction strategies, national communications and NAPAs.

35. GEF-supported project activities are fully integrated into national development programs, projects and plans, and are designed to build upon on-going activities in the country. Projects demonstrate country drivenness through continued commitment to the project's goals, the adoption of regulations and legislation necessary for the project's success as well as providing a record of meaningful stakeholder consultations resulting in an open and transparent project design.

2(d) Funding shall be available for concrete adaptation projects and programmes in eligible countries.

36. Consistent with previous guidance from the UNFCCC, the GEF is already financing concrete adaptation projects. The GEF has always financed projects and on-the-ground action in its focal areas. With respect to climate change, UNFCCC guidance to the GEF evolved from an initial focus on mitigation to encompassing identification and responses to adaptation needs. Moving beyond initial guidance to the GEF to finance "Stage I and II activities" (mostly studies, and vulnerability and adaptation assessments and support for capacity building), the Marrakech accords included several decisions calling for much greater support for adaptation activities. The GEF responded promptly by developing and financing concrete adaptation projects, financed through three different avenues: an adaptation pilot under the GEF Trust Fund and the climate change funds, the LDCF and the SCCF.

37. The management of the Adaptation Fund would build on this initial experience as well as on the GEF's broader experience in financing the preparation and implementation of on-the-ground projects in all focal areas.

2(e) Ability to receive contributions from other sources of funding.

38. The GEF has clearly demonstrated its ability to receive contributions from other sources of funding, such as bilateral and multilateral donors as well as the private sector. GEF commitments of \$6.2 billion in grant financing for more than 1800 projects has leveraged more than \$20 billion in co-financing from other partners resulting in a total of \$26.2 billion in funding.

39. The GEF has mobilized approximately \$180 million of additional resources to address the adverse impacts of climate change under the LDCF and the SCCF. The GEF will continue to mobilize resources for adaptation and other areas of intervention, consistent with COP guidance, for the climate change funds, and if requested to manage the Adaptation Fund, will seek to mobilize voluntary contributions for the Adaptation Fund.

40. The GEF is developing a program to generate global environmental benefits in a sustainable and cost-effective manner through enhanced engagement with the private sector. At its meeting in June 2007, the GEF Council will consider detailed proposals for a public-private partnership (PPP) to deepen the GEF engagement with the private sector.

2(f) Competency in adaptation and financial management.

41. The Strategic Priority on Adaptation (SPA), a pilot under the GEF Trust Fund, has provided financing for 23 projects in 48 countries. The LDCF, with current resources of \$120 million, has financed the preparation of 44 NAPAs and three NAPA implementation projects in Bhutan, Bangladesh and Malawi. The SCCF, with current resources of \$60 million, includes 14 projects under preparation in 25 countries. In developing these projects, approaches and methodologies for adaptation projects have been developed and applied. Consistency and complementarity of the different adaptation programs and funds are key principles. A concerted effort to define operational guidelines and good practices through experience has been carried out by a multitude of stakeholders, including developed and developing countries, the GEF, its agencies, and civil society. The results are visible in a growing project portfolio of concrete activities on the ground, aimed at producing significant results that will improve the lives of peoples and communities that are vulnerable to climate change. This experience, based on policy dialogues and learning-by-doing, provides a sound foundation for the operationalization of the Adaptation Fund.

42. The combined result of the three existing programs – the Strategic Priority on Adaptation (SPA), the LDCF, the SCCF – as well as the enabling activities dedicated to adaptation, have already established the GEF as a leading financier of adaptation projects. The current amount of resources under GEF management allocated to reduce vulnerability and to increase adaptive capacity to address the adverse effects of climate change in developing countries is approximately \$230 million. These resources will increase as additional funds are mobilized. The next pledging meeting for the LDCF and SCCF will be convened in June 2007.

43. The International Bank for Reconstruction and Development (World Bank) serves as the Trustee of the GEF. As an institution with a credit rating of AAA and a balance sheet of about \$200 billion, it is known for its highly professional, prudent financial management. The World Bank administers hundreds of bilateral and multilateral trust funds with well over \$10 billion in funds, in accordance with the same standards and policies as apply to its own operations.

2(g) Sound financial management, including the use of international fiduciary standards;

44. The World Bank acts as Trustee of the trust funds managed by the GEF, including the GEF Trust Fund, the Least Developed Countries Fund and the Special Climate Change 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 GEF Council for: (a) the maintenance of appropriate records and accounts for each fund and providing for their audit; (b) the disbursement of monies from the funds; (c) the investments 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 on the status of the funds' resources.

45. The policy recommendations approved in connection with the fourth replenishment of the GEF Trust Fund recognize that the use of GEF resources should be subject to the highest international fiduciary standards. The Trustee has been requested to prepare for Council decision, at its meeting in June 2007, policy proposals on strengthened accountability for Implementing and Executing Agencies eligible for implementing GEF assistance with due attention to issues of economy and efficiency. Such proposals are to specify minimum fiduciary standards consistent with international best practice. Each GEF agency will be expected to implement the fiduciary standards agreed by the Council.

2(h) Clearly defined responsibilities for quality assurance, management and implementation;

46. The GEF operates as a network organization built on a partnership among institutions. The GEF network has grown from the three original GEF Implementing Agencies, the UN Environment Program, UN Development Program, and the World Bank, to include seven Executing Agencies with direct access to GEF resources. These are the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD), the Food and Agriculture Organization of the UN (FAO), the International Fund for Agricultural Development (IFAD), and United Nations Industrial Development Organization (UNIDO).

47. In the GEF, defined responsibilities for implementation, management and supervision of projects help ensure quality and accountability. The GEF is governed by the Assembly and the Council. The GEF Secretariat services and reports to the Assembly and Council and implements their decisions. It does not implement or execute projects, thus avoiding the risk of conflict of interest. The Trustee is responsible for the financial management of the trust funds. The Implementing and Executing agencies work with countries to prepare and implement projects.

48. The Scientific and Technical Advisory Body (STAP) provides scientific and technical advice to the Council, and an independent Evaluation Office evaluates GEF policies and

operations. An independent Overall Performance Study is carried out prior to each GEF replenishment. The Overall Performance Study is preceded by focal area evaluations.

49. This network structure is both inclusive and flexible. To ensure that the GEF network can offer countries the best expertise in the broad array of issues and challenges that need to be addressed in adaptation activities, the GEF will seek collaboration with competency in key development and adaptation-related sectors, such as disaster risk management, public health, agriculture and food security, infrastructure, insurance, and access to, and management of, water resources.

2(i) Independent monitoring, evaluation and financial audits;

50. A new monitoring and evaluation policy was adopted by the GEF Council in February 2006. The policy contains minimum requirements for monitoring and evaluation (M&E) for GEF-funded activities covering project design, application of M&E at the project level, and project evaluation. The requirements call for concrete and fully budgeted project M&E plans with indicators, baselines, and responsibilities. Terminal evaluations at project end need to meet minimum quality standards. The policy also establishes the responsibility of the GEF Secretariat and the Implementing and Executing Agencies for monitoring at the portfolio and project levels. The Evaluation Office takes care of cross-cutting, strategic and portfolio level evaluations. Furthermore, the Evaluation Office sets minimum monitoring and evaluation standards within the GEF to ensure improved and consistent measurements of GEF results, and it provides quality control of monitoring and evaluation practices.

51. The Evaluation Office is independent from both the policy-making process and the GEF operations to guarantee that data gathering and analysis and judgments on criteria, findings, and recommendations are not influenced by conflicts of interest or undue interference by management at any level. The GEF Secretariat, Implementing and Executing Agencies and other affected parties may receive, comment, and respond to draft and final reports of the Evaluation Office, but they do not have the right to approve, hold back, request changes, or otherwise modify draft and final evaluation reports.

52. All evaluations presented to the GEF Council are accompanied by a management response for decision, to ensure that action is taken on the findings and recommendations. The follow-up of these actions is tracked in a management action record, which is annually presented to Council, thus ensuring feedback and learning in the GEF.

53. The Evaluation Office is in the process of organizing an international workshop (in 2008) on evaluation of environment issues, with specific focus on climate change and adaptation, to strengthen the approaches and methods for evaluating these aspects.

54. As Trustee of the GEF Trust Fund and the climate change funds, the World Bank maintains separate records and accounts for each. On an annual basis, the World Bank engages its external auditors to audit these accounts and forwards the auditors' report to the GEF Council. The World Bank also agrees and accepts from each Implementing and Executing Agency an annual audited financial report, prepared by the Agencies' independent auditors.

2(j) *Learning by doing;*

55. 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. 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. 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.

3. GOVERNING BODY

a) *The COP/MOP decided that membership of the governing body of the Adaptation Fund shall be from Parties to the Kyoto Protocol, follow one country one vote rule, and have a majority of Parties not included in Annex I to the Convention;*

56. At its special meeting in August 2006, the Council confirmed that, “for purposes of the Adaptation Fund (AF), the GEF will function under the guidance of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (COP/MOP).” It also reconfirmed “that the policies and procedures and the governance structure of the GEF will apply to the climate change funds, managed by the GEF in accordance with the decisions of the COP or the COP/MOP, *unless the Council decides it is necessary to modify such policies and procedures to be responsive to the guidance of the COP or COP/MOP.*” (Emphasis added.)

57. The Council decision agreed that should the GEF be requested to manage the Adaptation Fund, all decisions directly affecting the Adaptation Fund would be delegated to a Council for the Adaptation Fund. The Adaptation Fund Council would be responsible for decisions on matters concerning the operation of the Adaptation Fund, and its decisions would be taken among all Council Members representing Participants that are parties to the Kyoto Protocol. Therefore, the Council has already decided to create, if it is requested to manage the Adaptation Fund, an Adaptation Fund Council that will be fully consistent with the COP/MOP decision that membership of the governing body of the Adaptation Fund will be from Parties to the Kyoto Protocol.

58. The Council also committed, should the GEF be requested to manage the Adaptation Fund, to agree on a formal voting procedure following further guidance of the COP/MOP and taking into account the GEF Instrument. The World Bank legal staff has advised the Council that

a separate voting mechanism differing from the one applied to the GEF Trust Fund can be used with respect to the Adaptation Fund if the Council agrees to such procedures. The procedures would then need to be included in the trust fund administrative agreement establishing the Adaptation Fund as a trust fund managed by the World Bank as Trustee.

59. The decision of the COP/MOP provides that membership of the governing body of the Adaptation Fund will follow a one-country-one-vote rule.

60. The GEF Instrument calls for decisions of the Council to be taken by consensus. When consensus does not appear attainable, any Member of the Council may require a formal vote. Formal votes in the Council are taken by a double weighted majority; that is, an affirmative vote representing both a 60 percent majority of the total number of Participants and a 60 percent majority of the total contributions to the fund.

61. The issue becomes how to reconcile these two principles. Recognizing that the Adaptation Fund is to be financed from a share of the proceeds from certified project activities, the two principles can be reconciled by attributing ownership of the CER proceeds equally to all Kyoto Protocol Parties. This would result in a double majority voting system that fully respects the decision of the COP/MOP that the governing body follow a one-country-one-vote rule. The voting system would operate as described below:

- (a) The Adaptation Fund Council would seek to reach decisions by consensus;
- (b) When consensus does not appear attainable, the voting system would be applied. Approval of a decision by vote will require affirmative support of both 60% of the total number of Kyoto Protocol party participants and 60% of the total contributions made to the Adaptation Fund.
- (c) All Kyoto Protocol Parties that are members of the GEF will have one vote for the first part of the double majority vote.
- (d) The second majority vote will reflect contributions to the Adaptation Fund. To maintain the principle of one-country-one-vote, the CERs will need to be attributed equally to all Kyoto Protocol Parties so that all parties will have the same number of votes based on CER contributions. This will mean that the second part of the double majority vote will have the same result as the first part of the vote.

64. The decision also calls for membership of the governing body of the Adaptation Fund to have a majority of Parties not included in Annex I of the Convention. Kyoto Protocol parties not included in Annex I of the Convention make up a large majority of the GEF membership. Kyoto Protocol parties are the countries that will be represented on the Council for the Adaptation Fund. Since Kyoto Protocol parties not included in Annex I of the Convention will form a large majority of countries represented in the Council for the Adaptation Fund, under the proposed voting system non-Annex I Parties will have the majority number of votes³.

³ When voting, each Member on the Council is to cast the votes of the Participant or Participants he/she represents. A Member may cast separately the votes of each Participant in the constituency he/she represents.