Overview of Possible Institutional Options for the Management of the Adaptation Fund

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Acronym List

BCF	Biocarbon Fund
CBD	Convention on Biodiversity
CDCF	Community Development Carbon Fund
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CO	Country Office
COP/MOP	Conference of Parties, Meeting of Parties
CSP	Country Support Programme
EA	Executing agencies
EOU	Evaluation Oversight Unit
GEF	Global Environment Facility
GEFSEC	Global Environment Facility Secretariat
IA	Implementing Agencies
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IGO	International Governmental Organization
JI	Joint Implementation
LDCF	Least Developed Country Fund
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
Multilateral Fund	Multilateral Fund for the Implementation of the Montreal Protocol
NAPA	National Adaptation Programme of Action
NGO	Non Governmental Organization
ODS	Ozone Depleting Substances
OPS	Overall Program Study
PIR	Project Implementation Review
POP	Persistent Organic Pollutants
PPR	Project Performance Report
PSR	Project Status Report
RAF	Resources Allocation Framework

RCU	Regional Coordinating Unit
RMM	Results Management Model
TER	Terminal Evaluation Review
SCCF	Special Climate Change Fund
SIDC	Small Island Developing Countries
SGP	Small Grant Programme
SPA	Strategic Priority on Adaptation
STAP	Scientific and Technical Advisory Panel
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	Unites Nations Framework Convention on Climate Change
UNIDO	Unites Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women
UNV	United Nations Volunteers Programme
VAF	Vulnerability and Adaptation Fund
WMO	World Meteorological Organization

1 Introduction

1.1 Context

The COP by its decision 12/CP.1, in 1995, defined an approach for support to adaptation in three stages: Stage 1 – studies on climate change impacts and vulnerability assessments supported through national communications; Stage 2 – identification of measures to prepare for adaptation supported by second national communications; Stage 3 – feasibility studies and implementation financed through a variety of instruments.

As stated in the Kyoto Protocol: "The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that 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[1]." This led to the creation of the Adaptation Fund. It was created to finance adaptation projects and programmes in vulnerable countries that are Parties to the Kyoto Protocol, including activities mentioned in paragraph 8 of decision 5/CP.7. This fund is primarily financed by a 2% share of the proceeds of certified emission reductions (CERs) that were issued from Clean Development Mechanism project activities. This funding may be complemented with other sources of funding as stipulated in decision 28/CMP.1.

By its decision 28/CMP.1, the COP/MOP decided that the operation of the Adaptation Fund shall be guided by a country-driven approach; a sound financial management and transparency; a clear separation from other funding sources and a learning-by-doing approach.

The COP/MOP also decided to adopt, at its second session, further guidance on policies, programme priorities and eligibility criteria for the operation of the Adaptation Fund. In order to prepare a draft decision on this matter, the COP/MOP invited Parties to submit to the secretariat, by 13 February 2006, for consideration by the SBI at its twenty-fourth session, their views on:
(a) Specific policies, programme priorities and eligibility criteria
(b) Possible arrangements for the management of the Adaptation Fund

The secretariat has received 13 submissions by Parties, which are contained in documents FCCC/SBI/2006/MISC.7 and FCCC/SBI/2006/MISC.7/Add.1.

The COP/MOP also invited international organizations (IGOs) to submit to the secretariat, by 13 February 2006, their views on possible arrangements for the management of the Adaptation Fund for consideration by SBI 24. Submissions by IGOs are contained in document FCCC/SBI/2006/MISC.5

The COP/MOP has, in addition, requested the secretariat to organize, before SBI 24 a workshop to promote an exchange of views on further guidance for the operation of the Adaptation Fund.

[1] **UNFCCC**. *Kyoto Protocol*. http://unfccc.int/resource/docs/convkp/kpeng.html

1.2 Mandate and Methodology

This document was prepared as background information to facilitate discussions at the UNFCCC Adaptation Fund workshop, 3–5 May 2006, Edmonton, Canada. The goal of this report is to provide participants at the workshop with a factually based assessment to allow for the identification of an appropriate institution to host and manage the Adaptation Fund.

The UNFCCC Secretariat mandated an independent consultant to analyze the main existing alternatives for the management of the Adaptation Fund[2]. This was done using a series of institutional review criteria that were identified based on submissions by Parties and IGOs and of the key principles outlined by decision 28/CMP.1.

From these criteria and the submissions made by Parties, three main alternatives for the management of the Adaptation Fund were selected for more in-depth review. These are the Global Environmental Facility (GEF), the United Nations Development Programme (UNDP), and the Multilateral Fund for the Implementation of the Montreal Protocol (Multilateral Fund). UNEP and the World Bank were also considered but in view of their support for the GEF institutional option, of the fact that the Multilateral Fund is essentially under UNEP, and in view of the limited scope of the present mandate, the paper makes only a limited summarized review of these last two institutional options.

The review was made based on documents produced by the institutions, such as rules of procedures, institutional assessments, implementation reports, evaluation and monitoring guidelines and regional reports. Interviews were also conducted with key individuals within the GEF secretariat, UNDP and the secretariat of the Multilateral Fund, in order to gather additional information on institutional structures and procedures.

2 Review Criteria

2.1 Explanation of criteria and relevance

Eight main criteria were identified and retained (table 1) for this institutional review. They allow for a summary analysis of the institutional capacity to manage a fund like the Adaptation Fund, according to specific requirements identified in submissions by Parties and COP/MOP guidance. Nonetheless, the purpose of this study was to focus on general trends for each candidate and provide an overview, rather than undertake a complete evaluation of their management, activities and operations.

[2] This note has been prepared based on a background paper prepared by Mr. Alain Lafontaine, a Baastel Consultant.

Table 1 – Main Review Criteria

Main Criteria
1. Existing decision making structures
2. Access and representation of the organization in non-Annex I Parties
3a. Capacity to design and implement (program and project management) **3b. Capacity to monitor and evaluate (program and project management)**
4. Experience and capacity in the field of Climate Change, and in particular adaptation / The complementarity and potential for synergies with the core business of the institutions[3]
5. Absorptive capacity
6. Networking capacity
7. The cost structure of the organization
8. Fund raising capacity

The ***first*** criterion allows the analysis of the strategic planning capacity, the level of flexibility, accountability and transparency in decision making structures and the assessment of the governing body's composition to evaluate its level of representation from developed and developing countries.

The ***second*** criterion provides information on the organizational capacity to channel communication and dialogue with developing countries.

The ***third*** one is wide-ranging, and is divided in two subsections in the organizations' analysis. The first subsection addresses the capacity to design and implement (program and project management), includes the capacity to respond to the COP[4] / COP/MOP guidance, to review, prioritize projects and design sustainable project criteria, to adopt a country-driven approach, to link inputs with outputs and outcomes, and to use effective implementation processes and procedures for the projects operations. The second subsection addresses the capacity to monitor and evaluate (program and project management), which focus is on the adequacy, predictability and timely disbursements of funds, the capacity to organize independent evaluations within a results based management system, and to comply with the learning-by-doing approach.

The ***fourth*** criterion is meant to acknowledge each organization's knowledge, skills and experience in projects related to climate change and adaptation. This analysis includes an assessment of the complementarity and synergies with other global environmental issues, which could provide more effective project design, management and resource allocation.

The ***fifth*** criterion on absorptive capacity contributes to measuring the institution's ability to value, assimilate, and apply new knowledge. It provides more information about structural learning and administrative simplification capacity with regards to the Adaptation Fund.

[3] Initially nine eligibility criteria were identified. However, based on available documentation and on the nature of Criteria 4 (Experience and capacity in the field of Climate Change, and in particular adaptation) and 9 (Complementarity and potential for synergies with the core business of the institutions), it was decided that both criteria and indicators would be merged together under Criteria 4 as the analysis to be made under these criteria was relatively similar.

[4] The term COP is used in the report to refer to the COP of the relevant agreement. In the case of the Adaptation Fund, it would be the COP/MOP for the Kyoto Protocol.

The ***sixth*** criterion evaluates the capacity to cooperate with COP/MOP, funding partners, implementing agencies (IAs) and to pool technical resources.

The ***seventh*** criterion gives an overview of the cost structure of the organization, according to the Adaptation Fund's management and the additional costs this fund could bring to the organization. It also provides information on the fiduciary standards of the organization.

The ***eighth*** and last criterion reviews the capacity to leverage co-financing and sustainable fundraising.

The organizations' review according to these criteria attempts to provide a basis for comparison and assist participants at the workshop to focus on merits and challenges for each organization.

3 Possible Arrangements for the Management of the Fund

This section presents background information on the three main alternatives selected for more in-depth review. These were presented as main alternatives by Parties in their submissions for institutions to manage the Adaptation Fund (the GEF and UNDP), or can provide an interesting alternative governance and operational structure for the management of the Adaptation Fund (the Multilateral Fund). These organizations are reviewed below against the selected criteria. Summary information on two other organizations, the World Bank and UNEP, is also provided to help assess them as potential options and/or as a complement to the alternatives at the workshop.

3.1 GEF

3.1.1 Existing decision making structures

The GEF was established in 1991 to provide financing to developing countries for global environmental protection and conservation projects and is governed by an Assembly and a Council. The Rules of Procedure for the GEF Council and for the Assembly provide information on management procedures and on decision-making steps. These documents are available on the GEF website, which ensures equal access to information on decision-making processes to all members of the GEF and stakeholders.

The GEF Assembly consists of representatives of all countries and meets once every three years. It operates on a consensus basis. The Council meets twice a year or as frequently as necessary. The Council operates on a consensus basis and makes the operational decisions (Council members and their regional distribution are discussed under 3.1.2). Voting procedures exist, however there has never been a vote taken by the Council. In the case of a vote, members would have to cast votes for each members of their constituency. This voting arrangement represents a hybrid between one country one vote (which takes precedence), and one share one vote. For the purpose of voting power, total contributions consist of the actual cumulative contributions made to the GEF Trust Fund and in subsequent replenishments of the Trust Fund, contributions made to the GEF Trust Fund, and the grant equivalent of co-financing and parallel financing made under the GEF pilot program, or agreed with the Trustee (the World Bank), until the effective date of the GEF Trust Fund[5].

The GEF operates as the financial mechanism for the implementation of various Conventions such as the United Nations Framework Convention on Climate Change (UNFCCC), or the Convention on Biological

[5] **GEF**. GEF Instrument for the Establishment of the Restructured Global Environmental Facility. May 2004.

Diversity. In terms of relationship and cooperation with Conventions, the use of the GEF resources for the purposes of the conventions have to be done in conformity with the policies, program priorities and eligibility criteria decided by the COP of each of those conventions[6]. In the case of the management of the new funds (LDCF and SCCF) under the UNFCCC, the GEF Secretariat has ensured separation of the new funds from the GEF Trust Fund both for purposes of operations and charging of administrative costs incurred on managing the funds. Council approval for administrative costs is sought occasionally through separate proposals, as it can not be done through GEF's corporate budget which applies to the GEF Trust Fund[7].

The GEF focuses on the following focal areas: biodiversity, climate change, international waters, ozone depletion, land degradation, and persistent organic pollutants. The GEF operational structure is based on 15 operational programs and operational priorities. In addition to the Rules of Procedure for both the Council and the Assembly, various strategic and procedural documents, such as the Replenishment papers, and the three Overall Performance Studies (OPS), provide guidance for the overall management of the GEF, and for its current and future strategic planning.

At each Council meeting, the GEF Secretariat (GEFSEC) presents a document entitled "*Institutional Relations"* in which new COP guidance, interpretation and overall implementation strategies are presented for discussion and recommendations. Once the Council agrees on how to interpret and generally implement COP guidance, the GEFSEC, in partnership with the IAs, develop ways to operationalize the Guidance. The GEF developed strategies to allocate resources between priority areas, to maximize its impacts and resources. Some examples of these include further defining some project criteria in response to the guidance, deciding that certain projects should be 'scoped' down, 'phasing' certain initiatives, or funding new Operational Programs (OPs) or Focal Areas. In addition, GEFSEC can propose amendments. IAs then work with countries to implement COP Guidance in accordance with country drivenness principles and country priorities. It should be noted here that the type of proposals developed by countries determines to a large extent the degree of responsiveness to COP guidance.

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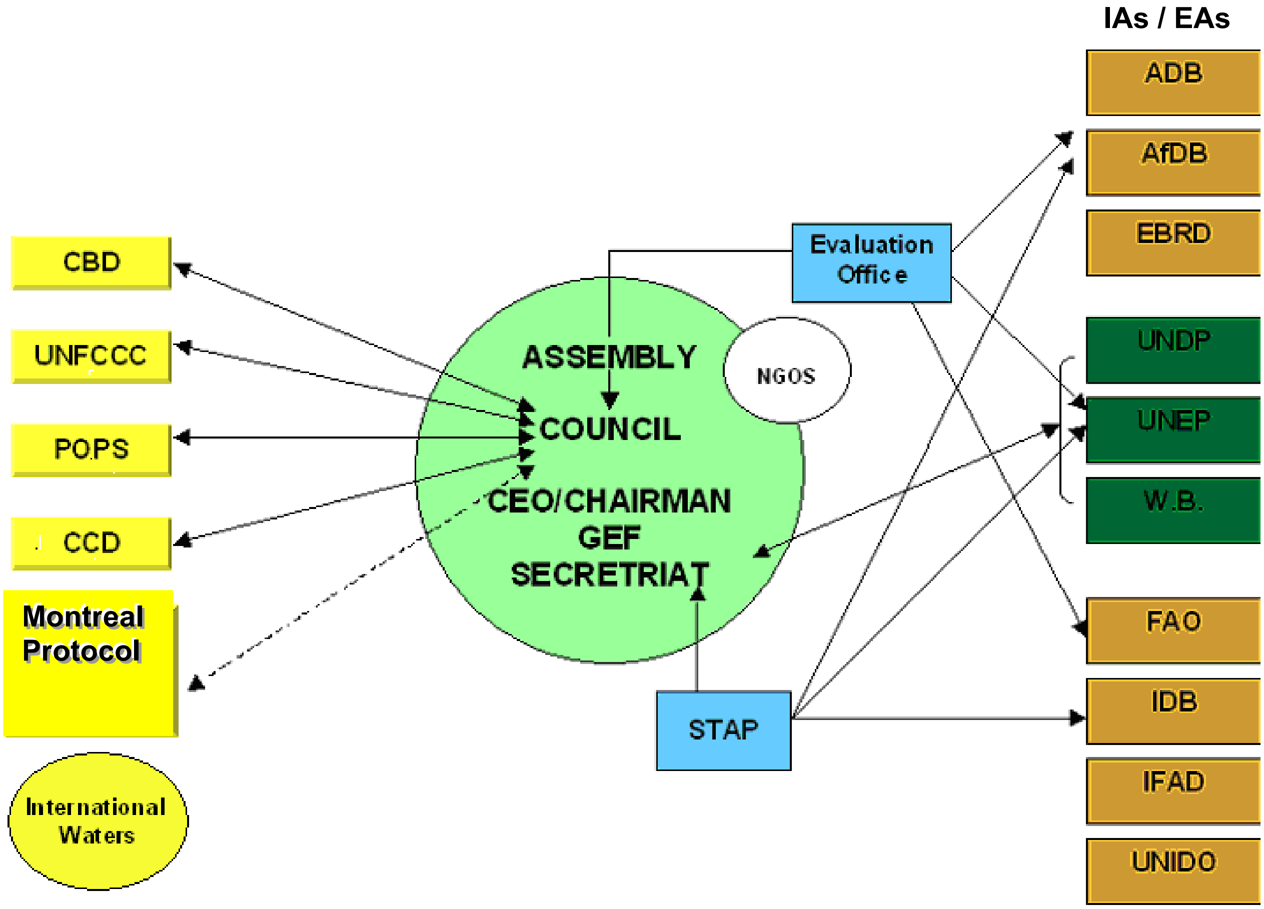
[6] *Loc. cit.*
[7] **GEF**. Operation of the LDC Trust Fund for Climate Change. GEF Council May 14-16, 2003. GEF/C.21/5/Rev.1. April 21, 2003.

Figure 1 – GEF Organigram[8]



The third OPS exercise (OPS3) notes the importance of clarifying and improving the coherence of strategic direction in each of the focal areas, in order to strengthen the focus on results within focal areas. This focus on results was recently adopted following a recommendation of OPS2[9]. As well, OPS3 notes that strategic planning and guidance within the GEF produces mixed results. Some focal areas have abundant information to deal with, while guidance is lacking in other focal areas. For example, in the Persistent Organic Pollutants (POPs) focal area, guidance with regards to the means of calculating incremental costs has not been sufficient, which created confusion and made it difficult to implement[10].

[8] **UNDP/GEF**. *Measuring and Demonstrating Impact*, UNDP-GEF Resource Kit, March 2005
[9] **GEF**. *OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environmental Facility*, Executive Version, June 2005.
[10] The GEF definition of incremental costs: "The agreed incremental costs of activities to achieve global environmental benefits concerning chemicals management as they relate to the above focal areas shall be eligible for funding. The agreed incremental costs of other relevant activities under Agenda 21 that may be agreed by the Council shall also be eligible for funding insofar as they achieve global environmental benefits by protecting the global environment in the focal areas." *GEF Instrument for the Establishment of the Restructured Global Environmental Facility*. May 2004. http://thegef.org/GEF_Instrument3.pdf.

3.1.2 Access and representation of the organization in non-Annex I Parties

GEF Council consists of 32 members, who represent constituency groupings of participants, of which 18 members are from recipient constituencies, and 14 are from non-recipient constituencies. The 18 recipient constituencies are geographically distributed as follows: 6 are from Africa, 6 are from Asia and the Pacific, 4 are from Latin America and the Caribbean, and 2 are from Central, Eastern Europe and the former Soviet Union. Council members are expected to reflect the views of countries in their constituencies. Some countries have criticized the composition of the GEF Council, as they argue that the Council does not allow adequate representation of least developed countries within the Council members[11].

The GEF is also represented by its IAs in the countries. It has established various communication mechanisms between non-Annex I Parties and the GEF. National dialogue workshops are an example of a communication mechanism used by the GEF. The GEF also has focal points in countries. These focal points are provided with quarterly news to inform them on key decisions taken by the Council, as well as other key issues. In GEFSEC, 4 full-time professional focus on communication/liaison/lessons learned sharing with focal points and developing countries. As mentioned on the GEF's website: "The Council has expanded support for GEF national focal point development and national capacity development so that countries can better address global environmental challenges and strengthen their capacities to work through the RAF approach. Two new initiatives – Country Support Program (CSP) for Focal Points and the GEF National Dialogue Initiative – will provide opportunities for stakeholders to seek clarification and provide feedback about the RAF.[12]"

3.1.3 Capacity to design, implement, monitor and evaluate (program and project management)

<u>Design and Implementation</u>

Since its restructuring in 1994, the GEF has worked on the basis of 10 operational principles, which are used as the Project Review Criteria for screening project proposals. Project proposals are expected to address the following operational principles[13]: "1) the relationship of GEF activities to the relevant international conventions; 2) the financing of agreed incremental costs of measures for achieving agreed global environmental benefits; 3) cost-effectiveness; 4) country ownership; 5) flexibility; 6) full disclosure of non-confidential information; 7) public involvement; 8) country eligibility; 9) GEF's catalytic role and the need for financial leverage; and, 10) Regular monitoring and evaluation." As indicated earlier, the second operational principle on incremental cost and global benefits does not apply to projects that address adaptation to climate change under the LDCF and the SCCF.

All GEF full-size and medium-size project designs must reflect national or regional priorities and have the support of the country or countries involved. They must also improve the global environment or advance the prospect of reducing risks to it. Projects must also be based on the strategic priorities within the six focal areas of the GEF. Strategic priorities define the major themes and approaches under which resources will be programmed and utilized within each of the focal areas, and are consistent with the OPs, guidance

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[11] **UNFCCC**. *Subsidiary Body for Implementation*, Twenty-fourth session, Bonn, 18–26 May 2006, Item 5 (a) of the provisional agenda, Financial mechanism (Convention), Third review of the financial mechanism, http://unfccc.int/resource/docs/2006/sbi/eng/misc09.pdf

[12] **GEF**. Internet webpage on Operational Policies and the RAF. http://www.gefweb.org/Operational_Policies/Resource_Allocation_Framework.html

[13] **GEF**. *GEF Project Cycle: An Update.* GEF Council. November 19-21, 2003.

from the conventions, and country priorities in each focal area. As well, in order to improve transparency and predictability of funding and to strengthening the focus on impacts and results, the GEF has recently developed a Resource Allocation Framework (RAF), which will guide the allocation of resources from the GEF Trust Fund in the climate change and biodiversity focal areas in GEF 4. This framework is based on two components: assessments of country potential to generate global environmental benefits in the focal areas of biodiversity and climate change, and ratings of country-performance based on macro, sectoral and portfolio performance indicators[14]. It is expected that the RAF will allow countries greater discretion in selecting projects in the appropriate focal areas, thereby allowing a more country-driven approach to climate change in developing countries. It will also ensure that all member countries have access to information with regards to how allocation decisions are made, and will build on the country ownership principle. However, it is important to note that the RAF will be applied only to the biodiversity and climate change focal areas supported from the GEF Trust Fund. The RAF will not be used to allocate funds under the LDCF or the SCCF, or under the Adaptation Fund if the COP/MOP decides to select the GEF as its host.

The GEF has different procedures and policies for the design, implementation, monitoring and evaluation (M&E) of full-size, medium-size and small grants projects. Procedures vary in synch with the size and complexity of those different delivery mechanisms. GEF relies on three IAs, the UNDP, UNEP and the World Bank, and seven Executing Agencies (EAs), which have direct access to GEF funding. These EAs with expanded opportunities are the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, the International Fund for Agriculture Development and the United Nations Industrial Development Organization. The IAs and EAs have the lead responsibility for designing, implementing and executing projects. The fact that the GEF is structured as a network and relies on three IAs and various EAs for program/project implementation and execution has an impact on the length of its project cycle, particularly as it relates to full-size and medium-size projects. It has been estimated that it takes approximately 3 years to design, develop, and approve a full-size project, before undertaking project execution. Nonetheless, thanks to this structure, the GEF benefits from the comparative advantages of each IA and EA.

Monitoring and Evaluation

In the past year, the GEF Evaluation Office has been established as an independent office reporting directly to the GEF Council. Its central function is to assess and report on results and lessons from GEF Programs and projects. It is responsible for independently evaluating GEF effectiveness, establishing evaluation standards, and providing quality control for M&E on the part of IAs and EAs. Its goal is to provide a basis for decision-making, promote accountability, promote knowledge management and provide feedback. The Council decides on evaluation policies, discusses four year rolling work plans, approves annual budgets, receives all M&E reports, and ensures that GEF policies, programs, operational strategies and projects are monitored and evaluated on a regular basis. In addition, the GEF has a new M&E policy which was published in February 2006 and sets out the principles of M&E as applicable to GEF-supported activities[15].

Monitoring is a shared responsibility between GEFSEC and its IAs. The IAs have the responsibility for undertaking annual project monitoring and evaluating individual projects. The GEF Secretariat is

[14] **GEF**. GEF Resource Allocation Framework. *GEF Seminar on Resource Allocation Framework*, Paris, September 27-28 2004.
[15] **GEF**. *The GEF Monitoring and Evaluation Policy*. February 2006.

responsible for portfolio monitoring and the Office of Evaluation is responsible for evaluating impacts of work in each focal area, and overall organizational effectiveness. All projects are required to contain M&E plans including performance indicators for projects, and must be reviewed on an annual basis as part of the Project Implementation Review (PIR). In addition, all projects must conduct independent Terminal Evaluation Reviews (TERs) and mid-term evaluations that are required to be provided to the GEF Office of Evaluation. Among other evaluation and reporting tools, the GEF prepares yearly Project Performance Reports (PPR), which are annual monitoring reports to the GEF Council on the implementation of the GEF portfolio. PPRs build on the results of the PIRs, and the TERs, and draws on additional information and insights from evaluations and other studies carried out during the year.[16] The PPR presents an annual portfolio overview including distribution of funds, disbursements, elapsed time of projects between GEF allocation and effectiveness, an assessment of progress towards achievement of project outcomes, as well as the main challenges in the focal areas. In addition, the PPR focuses on three M&E criteria: sustainability, replication and M&E.[17] As for the special funds, a new expedited modality to streamline the GEF project cycle is under consideration for the implementation of projects on the ground under the LDCF, which should have an impact on the M&E modalities of projects financed through this fund.

As a learning-based institution, the GEF periodically takes stock and factors in extensive implementation experience emerging from its portfolio. As found in OPS3, information management systems with the GEF network are inadequate. The GEF network lacks a systematic, comprehensive, GEF-wide approach to ensure that lessons learned are captured and disseminated adequately[18]. To improve its information management systems, the Office of Evaluation will, in collaboration with other teams of the GEF Secretariat and IA, and EAs, develop a knowledge management strategy based on primary user needs and priorities and the latest technologies and approaches.[19]

3.1.4 Experience and capacity in the field of Climate Change, and in particular adaptation / Complementarity and potential for synergies with the core business of the institutions

In the climate change area, in particular as it relates to adaptation, the GEF assists developing countries to address the adverse impacts of climate change. This is achieved by decreasing countries' vulnerability to climate change and increasing their resilience. In light of COP guidance and COP staged approach to adaptation, the GEF was requested to establish pilot projects, which led to: (a) the creation of the SPA under the GEF Trust Fund; and (b) the establishment of two new funds: the LDCF and the SCCF[20]. In keeping with COP guidance, the SCCF contains two programs of which adaptation to climate change is

[16] www.gefweb.org
[17] **GEF**. *Report of the Monitoring and Evaluation Unit Paper submitted at the GEF Council*. April 21, 2004, page 1.
[18] **GEF**. OPS3: *Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environmental Facility*, Executive Version, June 2005.
[19] **GEF**. *Monitoring and Evaluation Workplan for FY03-06*. Document to GEF Council. April 16, 2003, p.6.
[20] The governance structure and general operational procedures and policies that apply to the GEF Trust Fund will also apply to the LDCF and SCCF, unless the Council agrees that they should be modified in response to Convention guidance or to facilitate the operations of the LDCF and SCCF so as to achieve successfully the objectives of the funds. For example, the principle of financing incremental costs to achieve global environmental benefits that underlies the GEF Trust Fund has been replaced by the principle of financing the additional costs necessary to respond to the adverse impacts of climate change for purposes of the LDCF and SCCF (for adaptation). Similarly, operational procedures and simplifications made with respect to the LDCF and the SCCF (such as the sliding scale) will not be taken to establish any precedent for the operation of the GEF Trust Fund. In addition, decisions of the Council with specified application within the GEF Trust Fund, such as the Resource Allocation Framework which is to apply to the biodiversity and climate change focal areas in GEF-4, will not be extended beyond the COPs of the Council decision. Therefore, the RAF will not be applied in allocating funds under the LDCF and the SCCF.

the top priority, and technology transfer the second priority. Additional priorities for the SCCF are still under development by the COP. The LDCF was established to support, inter alia, the preparation and the implementation of the National Adaptation Programs of Action (NAPA) by Least Developed countries. The NAPAs started in early 2000s and are well under way. In the last six months the first projects entered the SCCF adaptation pipeline. The new funds, both managed by the GEF, are administratively and operationally separate from the GEF Trust Fund. The LDCF and SCCF use an innovative approach as they depart from the incremental cost approach and are rather based on the concept of additional cost. The additional costs are defined as the costs imposed to vulnerable countries to address the adverse impacts of climate change in achieving their development goals.

The Scientific and Technical Advisory Panel (STAP) also provides expertise in the adaptation area, as necessary. The STAP is a resource that the GEF has, to consult experts in each of its focal areas on a requested basis, and to receive guidance from these experts. The GEF can also rely on its IAs and EAs to supplement complementary expertise in adaptation. A GEF sub-task force is currently working on developing indicators for the adaptation area. Integrating adaptation into development implies the creation of development indicators, then adaptation indicators. However, the adaptation field is complex and wide-ranging, which complicates the development of adequate indicators.

The management of the Adaptation Fund would be complementary to the GEF core business as one of the GEF focal areas is climate change, and because the GEF is already managing two independent funds and one strategic priority in the adaptation area and has knowledge and experience of adaptation activities and challenges. Thus, it is likely that the management of the Adaptation Fund would be complementary to the SCCF, the LDCF, and the SPA, which will contribute to generating synergies within the institution.

3.1.5 Absorptive capacity

As already mentioned, the GEF manages several funds, and manages three sources of adaptation funding. It has already established various administrative procedures for the management of these funds. In order to ensure that trust funds are managed transparently and fairly, the GEF keeps separate the program of activities financed by the GEF Trust Fund from those financed by other funds established by COP. The World Bank acts as a Trustee of the trust funds managed by the GEF. The following quote lists the World Bank's responsibilities in this regard:

> "In this capacity, it holds in trust the funds, assets and receipts which constitute each Trust Fund, and it manages and uses them only for the purposes of the Trust Fund concerned. The Trustee is accountable to the Council for the performance of its fiduciary responsibilities. These responsibilities include; (a) the maintenance of appropriate records and accounts for each fund and providing for their audit in accordance with applicable World Bank policies and procedures, (b) the disbursement of monies from the funds in accordance with decisions made by the Council on the allocation of the funds' resources, (c) the investment of liquid assets in the funds, (d) the preparation of financial reports regarding the investment and use of the funds' resources; and (e) regular reporting to the Council on the status of the funds' resources."[21]

[21] **GEF**. *Submission of the Global Environment Facility (GEF) on Possible Arrangements for the Management of the Adaptation Fund*. February 2006.

Thanks to its experience in the management of various major multi-donor trust funds, the World Bank has developed robust reporting and accounting systems and infrastructure. If the GEF were to be selected for the management of the Adaptation Fund, the trust fund procedures already in place would provide for administrative simplification for the Adaptation Fund. As stated in a GEF Submission presented in a UNFCCC document on Views on Possible Arrangements for the Management of the Adaptation Fund: "Because the Trustee was able to use the pre-existing infrastructure put in place for managing the GEF Trust Fund, the costs for the establishment of these new funds (the LDCF and the SCCF) has been minimal. Their administrative and operational costs—while kept completely separate from those of the GEF Trust Fund—have been extremely low (the costs incurred by the LDCF are provided as an example under 3.1.7). A similar low-cost structure can be expected for the establishment of the Adaptation Fund.[22]"

In the past, project proponents, countries and the GEF Council have expressed some concerns about the complexity of GEF and its procedures. New guidance now emerges from GEF Council every six months, potentially improving communication channels and allowing more simplification and harmonization of procedures. In particular, a new expedited modality to streamline the GEF project cycle is under consideration for the implementation of projects on the ground under the LDCF.

3.1.6 Networking capacity

The GEF has experience in working in relationship with various convention bodies, including the COP. GEF's governance is oriented to respond to guidance from different conventions. According to OPS3, mechanisms for communication between GEFSEC and the secretariats of different conventions exist, which contributes to a regular dialogue[23]. In the biodiversity focal area, OPS3 found that the GEF has been responsive to guidance from the CBD, the United Nations Framework Convention on Climate Change (UNFCCC), the Montreal Protocol, the United Nations Convention to Combat Desertification, and the Stockholm Convention.[24] As well, OPS3 states "there are often circumstances, however, wherein the GEF entities, through implementation experience, have relevant perspectives on what is working, what could be improved or clarified, and what might benefit from a fresh approach. Indeed, more frank and timely exchange of ideas between the GEFSEC and the conventions could be helpful in furthering the agenda and success of the conventions within the context of the GEF.[25]"

The GEF has been able to respond flexibly to changes in decision-making processes and COP Guidance. Two examples of flexible GEF responses to COP Guidance are demonstrated by the creation and operationalization of both the LDCF and the SCCF. The GEF finances projects on the basis of incremental costs. However, for these two Funds, the incremental cost concept linked to the provision of global environmental benefits did not apply. As a result, the GEF introduced and defined the concept of additional costs. Additional costs are not calculated on the basis of global environmental benefits, but rather on the costs that are imposed on a country's development due to the adverse impacts of climate change. The GEF has also adapted its procedures and processes to respond to this innovative approach.

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[22] **UNFCCC**. *Views on Possible Arrangements for the Management of the Adaptation Fund*. Subsidiary Body for Implementation, Twenty-fourth session, Bonn, 18–26 May 2006

[23] **GEF**. *OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environment Facility*. Executive Version, June 2005.

[24] *Loc. cit.*

[25] **GEF**. *OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the Global Environmental Facility*, Executive Version, June 2005.

GEF is structured as a network and has access to the comparative advantages of each organization working as an implementing or executing agency. It has three IAs and several EAs. The IAs and the EAs may make arrangements for GEF project preparation and execution by other international organizations, agencies or banks, depending on these institutions' comparative advantages. The GEF's Scientific and Technical Advisory Panel, which serves as an advisory body, and provides access to technical inputs as required, is managed through UNEP. STAP has fifteen members that are experts in the GEF's key areas of work. It also has a roster of experts, which are requested to review each project prior to submission to Council for approval.

3.1.7 The cost structure of the organization

The GEF is independently audited on an annual basis. Published as part of the GEF's Annual Report, the audits include independent audits for the GEF Trust Fund, for the GEF Secretariat, and for the World Bank's GEF operations. It also includes audits undertaken by the UN Office of Audit for the GEF Operations of both UNDP and UNEP. Prior to each replenishment of the GEF Trust Fund, the GEF is independently audited and evaluated. In order to support these review exercises, program studies are undertaken in each of the GEF focal areas. As noted by OPS3, the GEF tends to have a good record in responding relatively quickly to recommendations formulated by independent reviews and in developing plans of actions, new processes or procedures to address these.

With regards to the budgeting process and fund disbursement, the GEF's Performance Reports noted, "disbursement performance continues to improve… Time elapsed from GEF Council approval to IA Board approval for full-sized projects is showing an overall downward trend since the beginning of GEF-1". There has been continuous work on streamlining the internal procedures of the project cycle. However, one of the major criticisms of the GEF is the length of the project cycle, which hinders a project's timeliness. The project cycle is currently under review and proposals to improve the cycle will be submitted at a meeting of the GEF Council in mid-2007[26].

GEF projects have fees (9%) associated to them to cover the costs generated by the IAs and EAs in carrying out project implementation, these also include the costs associated with M&E. The World Bank also charges a fee linked to the services provided for the administration of the Funds as a Trustee, which amounted to US$1.450 million for FY 2005[27]. This results in scale-economies linked to the trust fund operations. The World Bank has managed over 850 Trust Funds so far for different constituencies in addition to selling its own bonds to raise capital for its operations. In the case of the LDCF (source: GEF Council Status Report on LDCF), as of September 29, 2005 total receipts to the Fund amounts to US$32.5 million. LDCF approved allocations worth US$11.3 million. At the project level, as of April 24 2005, 43 national NAPAs and two global support projects have been approved and amounted to US$9,415,219. Allocations made for IA fees amounted to US$1,048,191 (9%), and net allocations made for administrative budgets by GEFSEC were US$600,679 (5.3%)[28]. However, it is not clear what amounts were disbursed for M&E of projects financed under the LDCF nor or other special funds such as the SCCF.

3.1.8 Fundraising capacity

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[26] **UNFCCC**. *Third Review of the Financial Mechanism*, Synthesis Report. Working Draft, March 2006.
[27] **GEF.** *GEF Corporate Budget FY 05.* GEF Council, May 19-21, 2004. GEF/C.23/9, April 20, 2004.
[28] **GEF**. *Status Report on the Climate Change Funds*. GEF Council, November 8-10, 2005. GEF/C.27/9, October 17, 2005.

Since its creation in 1991, the GEF has completed a Pilot Phase (US$750 million); GEF 1 (US$2 billion); GEF 2 (US$2,75 billion); and GEF 3 (US$3 billion) is due to end in June 2006. As of February 2006, the GEF has allocated a total of approximately US$ 2 billion to climate change projects from GEF Trust Funds. As well, another US$ 10 billion in co-financing has been leveraged for GEF projects[29]. To illustrate the GEF capacity to raise financial resources in the case of a fund, a total of US$ 40.5 million has been raised for the LDCF, of which a quarter had been allocated. With regards to the SCCF, all projects were able to secure large amounts of co-financing, often doubling and even tripling the initial amounts allocated by the GEF to the project. Thus, the GEF has capacity to leverage both co-financing and sustainable fundraising. As noted by OPS3, the GEF could enhance its co-financing capacity by building more flexibility into the timing of co-financing, and to seek higher levels of co-financing in the implementation phase.

[29] *Loc. cit.*

3.2 Multilateral Fund Secretariat for the Implementation of the Montreal Protocol

3.2.1 Existing decision making structures

The Montreal Protocol on Substances that Deplete the Ozone Layer (herewith referred to as the Montreal Protocol) was adopted in September 1987. The Montreal Protocol establishes the responsibilities of the Parties, and defines the control measures that it imposes on the production and consumption of Ozone Depleting Substances (ODS). It established the Multilateral Fund for the Implementation of the Montreal Protocol (herewith referred to as the Multilateral Fund) in 1990. The Multilateral Fund acts as the financial mechanism of the Montreal Protocol. Its key functions are the following:

- It was established under Article 10 of the Montreal Protocol as its financial mechanism and allows future arrangements with respect to other issues and has its own juridical personality.
- Its operations are overseen by an Executive Committee comprising seven Article 5 (developing countries) and seven non-Article 5 parties (developed countries)[30].
- In delivering financial and technical assistance, it works together with IAs: the World Bank, UNEP, UNDP and UNIDO; as well as with up to nine bilateral IAs of contributing Parties.
- Its day-to-day operations are carried out by a secretariat, based in Montreal.

The Multilateral Fund provides funds to help developing countries comply with their obligations under the Montreal Protocol. It promotes technology transfer and contributes to building the capacity in 141 countries to support them with the implementation of phase-out plans for ODS. The operational and institutional structure of the Multilateral Fund is explained in the document entitled: Policies, Procedures, Guidelines, Criteria (as of December 2005)[31]. This document provides guidelines and decisions related to business plans developed by the IAs, on the Multilateral Fund's replenishments and other information that is essential for the Multilateral Fund's strategic planning. There are also other strategic planning documents that provide guidance for the implementation of the Montreal Protocol through the Multilateral Fund, such as the consolidated business plans, three-year ODS phase-out plans, the financial planning for the current replenishment triennium, and status of compliance assessments. The Rules of procedure of the Conference of the Parties and the Montreal Protocol Handbook provide procedures and related decisions from the Meeting of the Parties. An abbreviated primer for new Executive Committee members summarizes the operation of the Fund and key decisions and guidelines.

The Executive Committee of the Multilateral Fund is in charge of developing and monitoring the implementation of operational policies, guidelines and administrative arrangements, including the disbursement of resources. The Chairman and Vice-Chairman are selected from the members of the Executive Committee (the members of the Executive Committee and their regional distribution are discussed under 3.2.2). Decisions are taken by consensus, however in the case no consensus can be

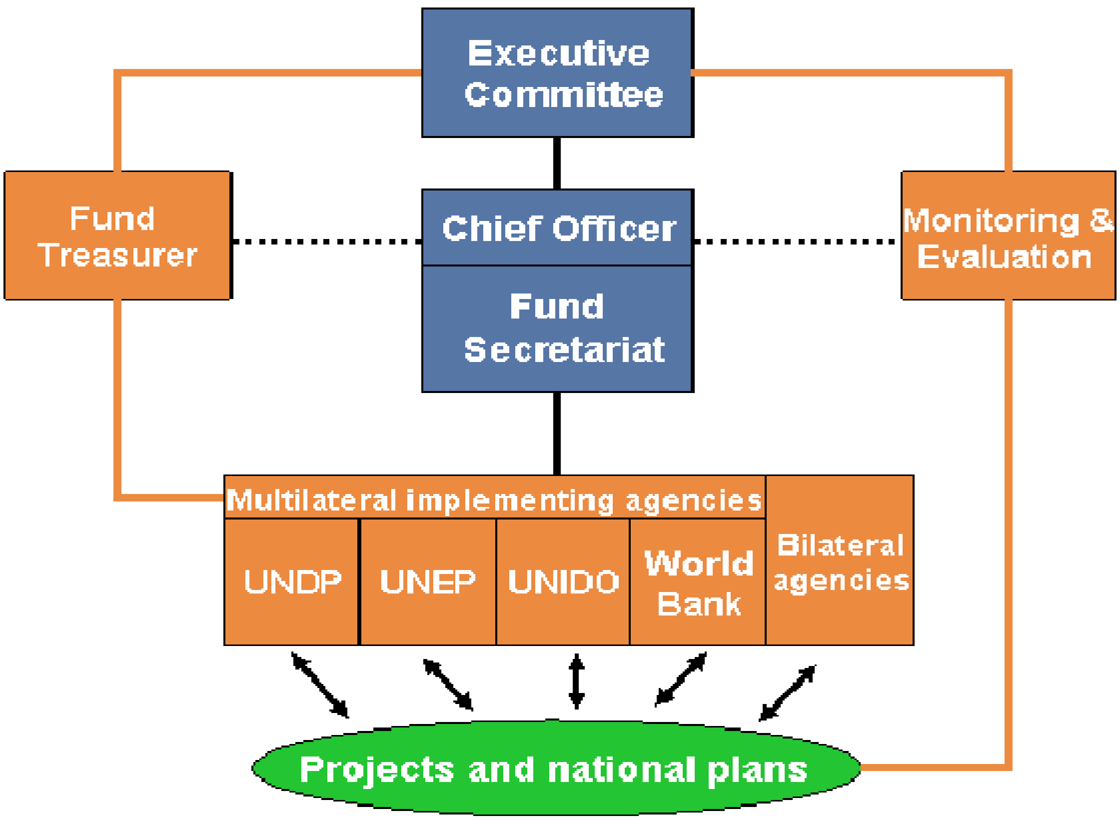
[30] Article 5 and non-Article 5 countries refer to the countries which operate, or not, under paragraph 1 of Article 5 of the Montreal Protocol. Paragraph 1 of Article 5 of the Montreal Protocol states the following: "Any Party may, for one or more control periods, transfer to another Party any portion of its calculated level of production set out in Articles 2A to 2F, provided that the total combined calculated levels of production of the Parties concerned for any group of controlled substances do not exceed the production limits set out in those Articles for that group. Such transfer of production shall be notified to the Secretariat by each of the Parties concerned, stating the terms of such transfer and the period for which it is to apply."

[31] **Multilateral Fund**. *Policies, Procedures, Guidelines, Criteria* (as of December 2005).

achieved (which has never occurred), decisions will be taken by a two-third majority of the Parties present and voting, representing a majority of the Article 5 countries, and a majority of the non-Article 5 countries[32]. The voting structure was designed to ensure that neither donors nor recipients could dominate the process.

The Fund Secretariat is co-located with UNEP and assists the Executive Committee in undertaking its functions. It ensures that the objectives of the Multilateral Fund are adhered to and provide liaison between the Executive Committee, governments and IAs. The separation of the management of the Multilateral Fund from its implementation activities has contributed to maintaining its credibility and independence, by enabling the development of the operational policies essential to achieve cost efficiency in a largely grant-based program.[33]

Figure 2 –Multilateral Fund Organigram (2006)



Since the establishment of the Multilateral Fund, there have been various changes to the Multilateral Fund's mechanisms to adapt to evolving circumstances and to improve the Multilateral Fund's effectiveness. The structure of the Multilateral Fund is flexible enough to adapt to the revision of the phase out schedules of the Montreal Protocol, on the basis of periodic scientific and technological assessments.

[32] **Multilateral Fund**. Section 2.8. *Terms of reference for the Multilateral Fund*. Annex IX of the report of the Fourth Meeting of the Parties.
[33] **Multilateral Fund**. *Creating a Real Change for the Environment.* March 2005.

The Montreal Protocol was adjusted to accelerate the phase out schedules. It has also been amended to introduce other kinds of control measures and to add new controlled substances to the list.

The consolidated business plans give information on the business plans submitted by the bilateral and multilateral IAs, which include the status of phase-out plans and their prospects for compliance[34]. This information provides guidance to the Multilateral Fund as it makes clear what has been achieved so far and what still needs to be achieved to globally phase-out ODS. It also specifies the objectives of the IAs and their targets for the coming years, and highlights other issues that need to be addressed by the Multilateral Fund on a medium-term.

3.2.2 Access and representation of the organization in non-Annex I Parties

The Executive Committee comprises seven Article 5 countries and seven non-Article 5 parties. Members are selected by decision at each Meeting of the Parties upon recommendations of the respective regional constituencies. The office of the Chairman is subject to rotation on a yearly basis, between Article 5 Parties and non-Article 5 Parties. The Vice-Chairman is selected by the other group from within their members. By common practice, the distribution of the seven developed country seats is based on the following constituencies: USA (permanent seat), Japan (permanent seat), CANZ (Canada/ Australia/ New Zealand), Large European (France/ Germany/ Italy/ United Kingdom), Nordic (Austria/ Finland/ Norway/ Sweden/ Switzerland), East Europe (Czech Republic/ Hungary/ Poland/ Russia/ Slovenia/ Slovakia and other CEITs), and other European countries (Belgium/ Denmark/ Netherlands/ Spain/ Portugal, etc.). The seven developing country members come from the following constituencies: Africa (2 members), Latin America and the Caribbean (2 members), Asia and the Pacific (2 members), 1 Rotating Seat to each region and the fourth year to Europe and Central Asia. A decision of the Parties set out the conditions for the rotating seat for developing countries.

The Multilateral Fund is represented by its IAs in the countries. IAs have representation in most countries, which are used to disseminate project results and work of the Multilateral Fund. The IAs facilitate the implementation of phase-out plans in the context of country programmes which are developed to facilitate compliance with the Montreal Protocol [35].

3.2.3 Capacity to design, implement, monitor and evaluate (program and project management)

<u>Design and Implementation</u>

Among other duties (as stated in the Terms of Reference for the Multilateral Fund), the Executive Committee approves project eligibility criteria and guidelines for the implementation of activities supported by the Multilateral Fund, reviews the performance reports of the IAs on the basis of comments and recommendations of the Fund Secretariat, monitors and evaluates expenditures incurred under the Fund, and approves country programmes, projects and national plans for compliance with the Montreal Protocol. The Fund Secretariat is charged with developing and monitoring the implementation of operational guidelines approved by the Executive Committee.

The role of the IA is to be the agent of the Multilateral Fund in implementing and/or executing projects and other activities approved by the Executive Committee. Three agencies (UNDP, UNIDO, and the

[34] An example of a consolidated business plan is the Consolidated 2006-2008 Business Plan of the Multilateral Fund.
[35] *Loc. cit.*

World Bank) implement all project types including those activities that require the purchase and installation of equipment. UNEP runs the regional networks and the compliance assistance programme (CAP) that includes staff in UNEP's regional offices. Nine contributing Parties have received approval for bilateral cooperation. All IAs and one bilateral agency have capacity building activities as part of management plans and national phase-out plans as well as direct assistance to developing countries for the funding of national ozone units (NOUs) within governments. These NOUs also provide a coordination function among the various other relevant government agencies, including but not limited to trade, industry, foreign affairs, finance, and agriculture. Recipient countries accept funding on the basis of agreements with the Executive Committee to achieve certain objectives, with initial partial disbursement, before the remaining funding is provided through the performance-based funding model. No other requirement is provided with respect to resource allocation other than funding should meet the Parties objectives of compliance requirements.

Initially, countries received support to implement the most cost-effective option to minimize the growth of such substances controlled by the Parties to the Montreal Protocol. In this way, the controlled substances were minimized and the environmental benefit maximized. During this initial stage of the Fund, cost benchmarks for conversion, capacity building, and demonstrations were identified. During the current stage, the compliance needs of developing countries are assessed and comprehensive national plans are agreed between the Executive Committee and the country, along with time-specific performance requirements according to a pre-determined schedule of disbursement of funds. In this way, the Multilateral Fund provides continued funding to countries based on the achievement of pre-determined and agreed objectives that enable compliance with the objectives and goals of the Parties.

Monitoring and Evaluation

The Multilateral Fund Secretariat is responsible for monitoring activities at different levels. At the project level the Secretariat reviews project performance data reported by the implementing and bilateral agencies. The Executive Committee oversees the monitoring activities carried out by the Secretariat. In 1995, evaluation guidelines for the Multilateral Fund were prepared and approved by the Executive Committee. As described in the Evaluation Guide prepared for the Multilateral Fund, the purpose of evaluation is to provide information on the following:

- "overall Fund performance in reducing ODS according to established targets;
- the effectiveness of projects in particular sectors, and of non-investment projects;
- the strengths and limitation of various types of projects;
- the major causes of observed failures to reach targets;
- possible actions that might improve performance of the Fund.[36]"

In 1995, the Multilateral Fund started to use a performance-based funding model, which is results-based as it uses funding as leverage to achieve expected results. Tranches of funding are based on milestones and activities specified in the agreement and are released only if these objectives have been met and verified. From that point on, all project proposals included milestones for the completion of all stages of the project.

The Multilateral Fund has a uniform reporting process, shared processes and indicators. All projects use the same indicators, to easily monitor projects at the portfolio level. Standard project completion reports are submitted by the IAs, and are in a consolidated project completion report presented to the Executive

[36] **UNEP**. Annex 1 – *Evaluation Guide*. UNEP/OzL.Pro/ExCom/23/4.

Committee at the end of each year[37]. Projects that are experiencing delays and projects with financial balances are monitored more closely and are reported to each Executive Committee meeting. Each year, the Committee approves the annual M&E work programme. This programme includes a description of the proposed evaluation studies that are to be undertaken during the year. Evaluations are prepared by independent consultants under the coordination of the Senior M&E Officer.

3.2.4 Experience and capacity in the field of Climate Change, and in particular adaptation / Complementarity and potential for synergies with the core business of the institutions

Because the Multilateral Fund's mandate is to implement the Montreal Protocol, the Fund was suggested by some Parties as a governance model that could inspire the management of the Adaptation Fund. It is therefore not appropriate to assess the Multilateral Fund's experience in the climate change nor adaptation areas. Nonetheless, it is important to note here that Article 10 of the Multilateral Fund enables it to seek arrangements on other environmental issues.

3.2.5 Absorptive capacity

The establishment of the Multilateral Fund in 1990 for the implementation of the Montreal Protocol marked the creation of a new approach towards addressing global environmental issues, which is the creation of a partnership between industrialized and developing countries on an equal basis, where industrialized countries acknowledged the fact that they are the major source of ODS and agreed to assist developing countries in meeting the financial and technological costs of respecting their ODS phase-out schedules[38].

According to the Chief Officer of the Multilateral Fund, "over the past 14 years, a global infrastructure has been built to deliver nearly 5,000 projects. The four multilateral agencies and eight bilateral IAs have developed programmes in all eligible developing countries including a system of financial intermediaries, regional networks, national ozone units and national project management units[39]."

In terms of focus of activities, the Multilateral Fund only covers the agreed incremental costs of ODS phase-out projects. The definition of incremental cost for the Multilateral Fund is slightly different from the one used by the GEF. Agreed incremental costs under the Montreal Protocol have to take into account the following principles:

(a) "The most cost-effective and efficient option should be chosen, taking into account the national industrial strategy of the recipient Party. It should be considered carefully to what extent the infrastructure at present used for production of the controlled substances could be put to alternative uses, thus resulting in decreased capital abandonment, and how to avoid deindustrialization and loss of export revenues;
(b) Consideration of project proposals for funding should involve the careful scrutiny of cost items listed in an effort to ensure that there is no double-counting;
(c) Savings or benefits that will be gained at both the strategic and project levels during the transition process should be taken into account on a case-by-case basis, according to criteria decided by the Parties and as elaborated in the guidelines of the Executive Committee;

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[37] **Multilateral Fund**. http://www.multilateralfund.org/.
[38] **UNEP**. *Illegal Trade in Ozone Depleting Substances: Is there a hole in the Montreal Protocol? The scale of illegal trade, A Smuggler's methodology, the Global Response.* OzoneAction Newsletter Special Supplement, Number 6.
[39] Statement of the Chief Officer of the Multilateral Fund at the 23rd Governing Council of UNEP, Cooperation and coordination within the United Nations systems on environmental matters, February 25th, 2005.

(d) The funding of incremental costs is intended as an incentive for early adoption of ozone protecting technologies. In this respect the Executive Committee shall agree which time scales for payment of incremental costs are appropriate in each sector.[40]"

3.2.6 Networking capacity

In terms of networking initiatives, the IAs are invited by the Executive Committee to consult each other regularly, while fulfilling their responsibilities with regards to the Multilateral Fund. They are expected to meet together at least once a year to report on their activities and consult on cooperative arrangements[41].

Regional networks were also set up for developing countries with the Multilateral Fund through UNEP, where they have access to information that is relevant to them. These networks meet once or twice a year, where they review regional issues and provide feedback on policies adopted. According to Ambassador Richard Benedick, from the Columbia Earth Institute: "Another lesson from the Protocol's success was the importance of public education: interpreting the continually evolving and sometimes confusing data, and communicating it intelligibly to the public and the media. This information flow mobilized public opinion on the potential dangers of a diminishing ozone layer, and thereby promoted political consensus for both policy measures and for funding research. The proponents of actions to protect the ozone layer generally avoided exaggerating their case as a means of capturing media and public attention. In this way, they maintained credibility (…). Later, UNEP and WMO played prominent roles, through workshops, publications and electronic media, in disseminating relevant information, including the availability of new technologies, to officials, business, and public around the world.[42]"

3.2.7 The cost structure of the organization

The Multilateral Fund Secretariat submits to the Parties accounts for the year at the end of each fiscal year. The United Nations performs independent audits of the Fund's accounts and submits them to the Parties. UNEP then provides a report on the results of the audits every year. The timing of these audits has to the extent possible to coincide with the accounting procedures of the IAs. The Multilateral Fund has so far been successful in addressing the issues raised in audits. According to a letter sent by the United Nations, the administrative issues raised in the Audit No. AA2003/02/04 were all addressed adequately[43].

The Multilateral Fund uses the capacity of existing international organizations to avoid duplicating cost structures and to keep costs down. It works on a fee-basis with IAs to cover project costs. The fee and the cost structure with IAs (for IBRD, UNDP, UNIDO) is as follows: the IA has a US $1.5 million core unit budget and, in addition, an agency support cost of 7.5 per cent for projects with a project cost at or above US $250,000 as well as for institutional strengthening costs and project preparation, and an agency support cost of 9 per cent for projects with a project cost below US $250,000, including country programme preparation. In the case of UNEP which role is different from the other IAs, it has no core unit budget, but direct funding for a number of posts as part of a compliance assistance programme and it has no agency

[40] **UNEP**. *Terms of Reference for the Multilateral Fund.* http://ozone.unep.org/Information_for_the_Parties/tor_multilateralfund.asp.
[41] **Multilateral Fund**. Section 2.8. *Terms of reference for the Multilateral Fund.* Annex IX of the report of the Fourth Meeting of the Parties.
[42] **Columbia Earth Institute.** *The Indispensable Element in the Montreal Ozone Protocol*. Ambassador Richard Benedick. September 1999.
[43] **United Nations**. Office of Internal Oversight Services. *Letter to UNEP Deputy Executive Director*. September 2003.

support costs for Institutional Strengthening projects. However, it applies an agency support cost of 8 per cent for the budget of the compliance assistance programme, and a support cost of 13 per cent for all other projects. In 2005, support costs to all four IAs amounted to US$ 18.45 million. Secretariat costs, which included the costs incurred by the Executive committee meetings, treasurer and the evaluation staff, totaled US$ 4.49 million, of which the treasurer (UNEP) received US$ 0.5 million. On that same year, total allocations made by the Multilateral Fund amounted to US$ 218.05 million, which included the budget of the Secretariat, evaluation, treasury services, Executive committee meetings and the IAs[44]. Since its inception up to now, the Multilateral Fund's total contributions (including interest earned) has amounted to US$ 2,061 million, and total allocations and provisions has amounted to US$ 2,023 million[45].

3.2.8 Fundraising capacity

The Multilateral Fund finances the agreed incremental costs of Article 5 countries on a grant or concessional basis as appropriate. In-kind support can be provided in the form of expert personnel, technology, technical documentation and training. According to Ambassador Benedick (please refer to the quote under 3.2.6), the Multilateral Fund was successful in raising awareness on ODS and in raising funds for research and for implementation of policy measures. As well, the Multilateral Fund has been able to secure co-financing, as certain aspects of the Multilateral Fund's activities have been completely financed by donor countries. It is also leveraging co-financing from industry, country governments and others to finance the costs of respecting countries' engagements under the Montreal Protocol. The estimated amount of cofinancing of the Multilateral Fund funded projects is 30% of the estimated total cost of such projects. This includes the counterpart funding from recipient enterprises and national institutions, and to a lesser extent from other financial institutions.

[44] Financial information provided by the Multilateral Fund Secretariat.
[45] **UNEP**. *Status of Contributions and Disbursements of the Multilateral Fund as of March 2006*. Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol. UNEP/OzL.Pro/ExCom/48/3.

3.3 UNDP

3.3.1 Existing decision making structures

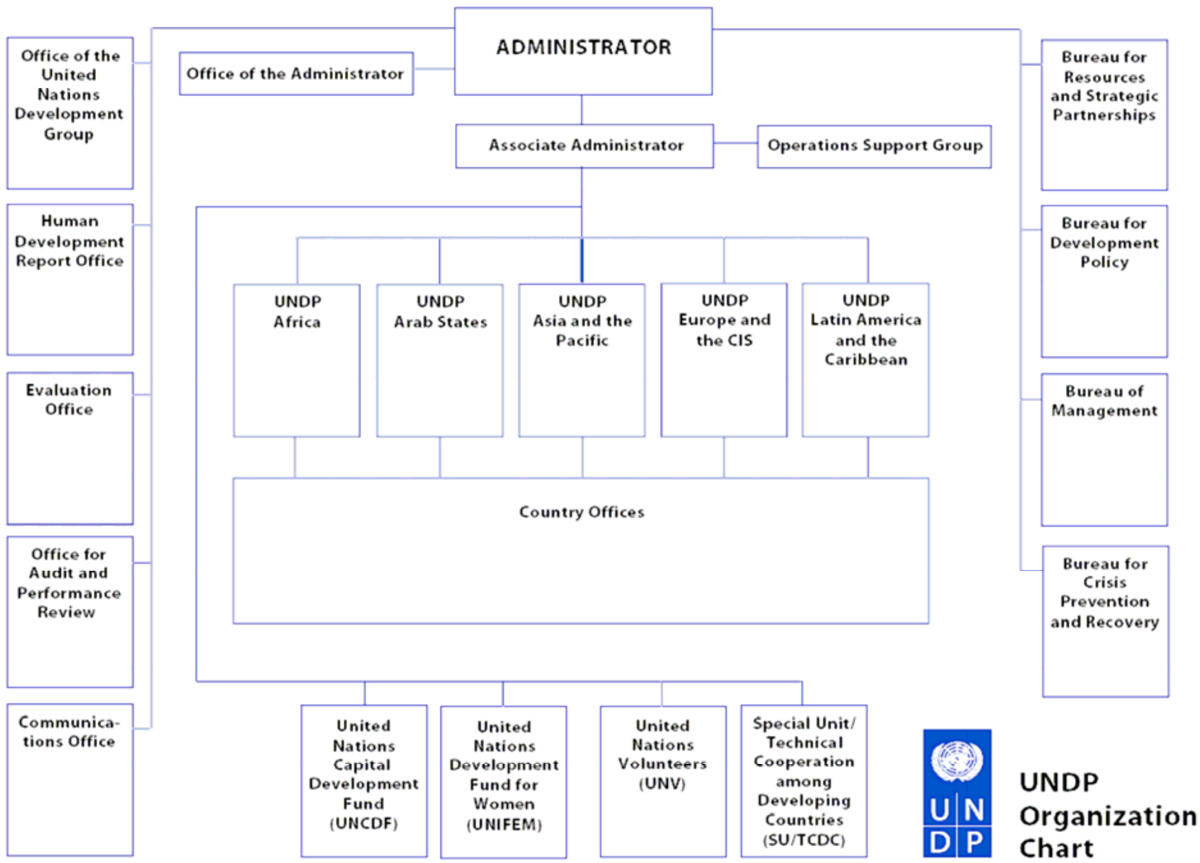
UNDP is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. UNDP was created by the General Assembly with the purpose of being the main UN agency to promote development throughout the world. UNDP is governed by an Executive Board composed of 36 members (the regional distribution of the Committee is discussed under 3.3.2). The Board oversees and supports the activities of UNDP, and ensures that the organization remains responsive to the evolving needs of programme countries. UNDP is on the ground in 166 countries. This network of country offices is supported by a regional presence in nine locations across regions, and a global headquarters in New York. UNDP draws on a network of close to 5,000 staff and a wide range of knowledge networks with a membership of approximately 14,000.

UNDP is organized in five Practices, which are crisis prevention and recovery, democratic governance, energy and environment, HIV/AIDS and poverty reduction. Additionally, UNDP has cross-cutting mandates on gender, partnership building, and capacity development. UNDP deepened focus on these development drivers, with more expertise at the Headquarters and field offices, and more policy guidance and tools. Environment became one of the key focus areas in the late 1980 with the building of the Environment Action team, bringing together different UNDP actors to work on environmental issues.

UNDP manages a number of trust funds and can provide a range of trust fund services, depending on the requirements of each fund. Such trust fund arrangements could include UNDP as the sole manager whereby fund management would comply with UNDP rules and regulations, while in other cases trust funds are designed to promote a broad partnership enabling parties to operate in accordance with their respective rules and procedures.

Under UNDP's rules and regulations, the administration of a Fund is fully delegated to its designated Manager, in the field or at HQs as the case may be. This enables UNDP to respond quickly to changing needs and circumstances. Accordingly, UNDP, at the request of its development partners, administers for them country (ex: Afghan Interim Authority Fund, UNDG Iraq Trust Fund) or thematic Funds (ex: HIV/AIDS, Energy and Environment). Either as a Trust Fund Manager or as the Implementing Agency of a multi-donor Trust Fund, UNDP has adapted programming and operational procedures to the specific requirements of specific fund and to emerging guidance from Trust Fund Management Boards. For instance, in the Health field, UNDP has been requested by the Global Fund for AIDS, Tuberculosis and Malaria (GFATM) to act as a Principal Recipient and manager of funds in 25 countries. UNDP is presently managing over US$ 1bn over a five year period. Leveraging the capacity of its ERP system (based on Peoplesoft/Oracle, UNDP adapted its financial systems and created specific accountability procedures to respond to the specific performance-based reporting requirements of the GFATM funding mechanism. For example, quarterly results based disbursement reports are generated with indicators for specific activities.

Figure 3 – UNDP organizational Chart[46]



3.3.2 Access and representation of the organization in non-Annex I Parties

UNDP Executive Board is composed of 36 representatives from countries all over the world. The Economic and Social Council elects members of the UNDP Executive Board in May each year. Members are elected for three-year terms, with the exception of the Western European and other States group, which has determined its own internal rotation policy. The following geographic breakdown of membership was legislated by General Assembly resolution 48/162: 8 from African States; 7 from Asian and Pacific States; 4 from Eastern European States; 5 from Latin America and the Caribbean States; and 12 from Western Europe and other States. The Presidency rotates each year to a different regional group and a group may not hold it more than once every five years. Rules of procedures of the Executive Board are designed to encourage consensus. If there is the necessity of holding vote, decisions have to be made by a majority of the members present and voting.

UNDP comprises a headquarters, and 5 Regional Centres working for specific clusters of 166 country offices. UNDP provides a range of services to governments and to United Nations teams via the UNDP Country Offices. In order to better support these offices UNDP also provides networked expertise via

[46] **UNDP**, *Organizational Chart,* http://www.undp.org/2003organigram.pdf.

Regional Centres whose teams liaise both with the UNDP Country Offices and UNDP Headquarters via a group of expert Policy Specialists:

Regional Centres:
- Europe and the CIS - Regional Centre, Bratislava
- Asia-Pacific - Regional Centre, Bangkok
- Asia-Pacific - Regional Centre, Colombo
- Asia-Pacific - Sub-Regional Centre, Suva, Fiji
- Southern Africa - Regional Centre, Johannesburg

UNDP's operations are decentralized and the organization has a country office or a country program in most non-Annex I Parties. This network of country offices assist UNDP in being responsive to the requirements of non-Annex I Parties. The Regional Centres are geared to engage in global advocacy and analysis to generate knowledge, alliance building and promotion of enabling frameworks on various issues, policy advice and support for national capacity building, knowledge networking and sharing of good practices.

Leveraging its country office infrastructure, UNDP is also the manager and funder of the UN resident Coordinator system, which encompasses all organizations of the UN system dealing with operational activities for development, regardless of their formal presence in the country. The Resident Coordinator is designated by the Secretary-General after consultation with CEB members and upon recommendation by the Administrator of the United Nations Development Programme (UNDP). At the country level, the UNDP Resident Representative usually also serves as the Resident Coordinator of development activities for the United Nations system. Through such coordination, UNDP seeks to ensure an effective use of the resources, expertise and impact of the UN system on the ground.

3.3.3 Capacity to design, implement, monitor and evaluate (program and project management)

Design and Implementation

Through its global network of field offices, UNDP can draw upon its experience in integrated policy planning and implementation, human resources development, institutional strengthening and non-governmental and community participation to assist countries in designing and implementing activities that are consistent with both the UNDP mandate and national sustainable development plans. As well, its country presence provides an additional window to enable UNDP to work with governments to mainstream global issues into national development agenda.

UNDP programming at the global, regional and national levels is informed by an array of strategic planning documents, which provide a focus on impact results. They are all available on the web to allow easy access and transparency. The last multi-year funding framework, 2004-2007, describes the strategic goals, organizational strategies and service lines to be pursued by the organization at the country level for this period[47].

At the national level, programming starts with the development of the UN Development Assistance Framework (UNDAF). Based on UNDAF, UN agencies develop their 5-year Country Programme Action

[47] **United Nations**, Executive Board of the United Nations Development Programme and of the United Nations Population Fund. *Second multi-years funding framework 2004-2007*, Second regular session 2003.

Plan (CPAP), with the view of promoting harmonization among UN agencies. Based on the UNDP CPAP, individual UNDP programmes and projects are developed.

UNDP project and programme management approach consists of a number of management processes, covering the activities from setting the project up, through controlling and managing the project's progress, to the completion of the project. The Results Management Guide provides the different steps in the decision-making process in view of accountability and transparency requirements. UNDP uses UNDAF (UN Development Assistance Framework) Results Matrices, which include feedback mechanisms to evaluate projects. The Executive Board of UNDP put emphasis on the quality of feedback mechanisms for every project to help commitment, ownership, and follow up and feedback on performance. This brought UNDP to use results based management in driving development, management and staff performance towards improved organizational effectiveness[48]. A management review conducted at the end of 2005, expanded the accountability mechanisms and programme support provided to UNDP country offices and regional centers, with further decentralization of management and operational functions and services. The Department of Development of United Kingdom recently conducted a study showing that UNDP rated highest out of 23 multilateral organizations in terms of organizational capacity, efficiency and accountability[49].

Monitoring and Evaluation

UNDP hosts an independent evaluation office, dedicated to support the Administrator in his substantive accountability functions. As stated in the DANIDA 2005 Peer Assessment of Evaluation in Multilateral Organizations on UNDP: "The United Nations Development Programme has an Evaluation Office (EO) that enjoys an acceptable level of independence and which produces evaluations that are credible, valid and useful for learning and strategy formation in the organisation. At the same time, its potential for helping strengthen accountability and performance assessment is being underexploited, both for the purpose of accountability and as an essential basis for learning"[50].

UNDP performed 18 centralized evaluations between July 2004 and March 2005, and 262 decentralized evaluations for the same period. 60% of all countries where UNDP is present were covered[51]. Delegations at UNDP Executive Board encouraged UNDP to work towards greater quality and coherence in evaluations, particularly at the country level. The Director of the UNDP Evaluation Office assured the Executive Board that evaluations should be expanded, particularly in Africa[52]. In the past five years, the UNDP Evaluation Office deployed strategies to ensure a better alignment of monitoring, evaluation and reporting practices with result-based management, as part of UNDP's corporate move towards Results-Based Management (RBM). This strategy outlines in particular the new focus of UNDP on Outcomes[53]. The DANIDA 2005 Study on Evaluation ranked UNDP as the best in RBM among all public sector institutions assessed.

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[48] **United Nations**, *Second Multi-year Funding Framework 2004-2007*, *op.cit*.

[49] **United Nations**, Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *Multi-years funding framework report on UNDP, Performance and Results for 2004.* Annual session 2005.

[50] **DANIDA**, Evaluation Department. *Peer Assessment of Evaluation in Multilateral Organizations on UNDP*. December 2005.

[51] *Ibid*., section 8.

[52] *Loc. cit.*

[53] **UNDP**, Evaluation Office, *Results Based Management: Concepts and Methodologies*, http://www.undp.org/eo/documents/RBMConceptsMethodgyjuly2002.pdf.

UNDP has adapted a balanced score card system to annually measure organizational efficiency and effectiveness. The balanced score card is aligned with the Multi-year Funding Framework (MYFF) that measures UNDP's contribution to development effectiveness.

In response to the new GEF M&E policy aiming to foster mainstreaming of GEF evaluation within the IAs issued in 2005, UNDP integrated the dedicated UNDP-GEF unit into the UNDP Evaluation Office (UNDP EO) within a few months and ensured that the new batch of UNDP country-level evaluations and Assessment of Development Results (ADR) would fully incorporate GEF-funded projects in 2006. The new UNDP Evaluation Policy (going to the Board in June 2006) also reflects this mainstreaming.

3.3.4 Experience and capacity in the field of Climate Change, and in particular adaptation / Complementarity and potential for synergies with the core business of the institutions

As one of the IAs of the GEF and the Montreal Protocol (MLF), UNDP has become the largest UN source for technical assistance for global environment management, providing about $6 billion to date ($2.5 billion in GEF and MLF grants with an additional $3.5 billion in co-financing from local communities, national institutions, private sector and governmental and non-governmental development agencies). In the field of climate change, UNDP supports over 400 large and 1000 small-scale projects delivering climate change benefits[54].

UNDP helps developing countries build the capacity needed both to adapt to the impacts of climate change and expand the reach of affordable, improved energy services to those without access. UNDP's climate change programme priorities include:

Mitigating Climate Change
- Development of integrated policies that build efficient national economies while minimizing GHG emissions
- Facilitating the transfer of proven technologies and win-win practices, including renewable energy and energy efficiency

Adapting to Climate Change
- Integrating climate change considerations into cross sector decision making – particularly agriculture, water and land use, energy and health
- Undertaking vulnerability and adaptation assessments to help identify appropriate response measures
- Assisting to identify and manage climate risks, particularly in relation to natural disaster management

UNDP has an expanding pipeline of adaptation-related projects currently standing at around $100 million, of which $40 million is for piloting adaptation projects in over 100 countries. UNDP is also involved with 29 Least Developed Countries to prepare their NAPAs and assess them with vulnerability and national

[54] **UNDP**, *The Sustainable Difference : Energy and Environment to achieve the MDGs*, Energy and Environment, Bureau for Development Policy.

priorities[55]. UNDP had also developed an adaptation programming kit to help countries develop adaptation projects[56].

According to UNDP, its decentralized implementing procedures allow a focus on developing adaptive capacities of institutions and local communities[57]. The organization has been given a specific mandate by the General Assembly as the United Nations focal point for main support to national capacities related to risk mitigation, prevention and preparedness. In terms of technical expertise in the field of Environment, UNDP has about 400 full time professionals in managerial or technical positions working on environmental issues, in over 140 countries, with a North/South representation[58]. Twenty full time staffs are working on Climate change and adaptation in UNDP Regional Services and HQs. Ninety percent of UNDP COs have assisted developing country governments to implement policies and projects for fostering poverty reduction and environment goals[59].

3.3.5 Absorptive capacity

UNDP manages a number of global programmes and trust funds. These range from thematically designated funds (TTFs), such as the democratic governance and the gender TTF, to supporting the implementation of others such as the Global Environment Facility (GEF) and the Global Fund to fight Aids, Malaria and Tuberculosis (GFATM). In the context of both humanitarian and development programmes, the UN has developed specific inter-agency tools - the CAP for humanitarian programmes, the CCA/UNDAF and the Result-Matrix for development programmes - to provide donors with a strategic overview of resource requirements and priorities. In 2005, UNDP delivered over $4.2 billion in resources, with $1.4 billion going toward fostering democratic governance, $700 million to poverty reduction, $360 million to crisis prevention and recovery, $320 million to energy and environment and $220 million to responding to HIV/AIDS. These numbers do not include project co-financing directly disbursed by project partners. Co-financing in climate change activities commonly amount to three times UNDP channeled resources.

In the context of transition programmes, similar approaches are being experimented with the Post-Conflict Needs Assessment (PCNA), the Transitional Results Matrix (TRM), and, occasionally, the formulation of transitional appeals. A number of Multi-Donor Trust Funds (MDTF) have been established in which UNDP is a primary partner, to address transition or post crisis situations, designed to help channel donor resources in a co-ordinated way and in accordance with national priorities. New arrangements along these lines, in close collaboration with the World Bank, are being experimented in Sudan, Afghanistan and in post-Tsunami Indonesia.

3.3.6 Networking capacity

Through its geographic organization with a headquarters, 5 Regional Centres working for specific clusters of 166 country offices, UNDP has advisory and research capacity to address substantive issues. It has also created communities of practice in over 20 areas such as Democratic Governance; Poverty Reduction; Crisis Prevention and Recovery; Energy and Environment; ICT for Development; HIV/AIDS; Evaluation; Gender Equality; Human Development Reports; Management Practice; Millennium Development Goals.

[55] **UNDP**, *UNDP's Adaptation Portfolio*, http://www.undp.org/gef/adaptation/projects/06.htm.
[56] http://www.undp.org/gef/adaptation/index.htm
[57] *Loc. cit.*
[58] **UNDP/GEF**, *A Manager's Guide to UNDP-GEF*, *op.cit*., Foreword.
[59] *Ibid*., section2.

There are currently more than 14,000 participants in this initiative - over half of UNDP's entire staff from every part and all levels of the worldwide organization, as well as more than 1800 members from the United Nations system and external centres of knowledge and expertise. Included in this number are full-time UNDP policy specialists, many of whom are located in the Regional Centers. Other than the full-time specialists, members of the knowledge networks participate on a voluntary basis.

UNDP's capacity to reach and work with national partners through its COs is demonstrated by local contributions for UNDP programs, which amount to 32% of total allocation of resources by budget category (2004-2007)[60]. UNDP's partnerships engage donor governments, developing-country governments, and multilateral organizations (such as other UN agencies and the World Bank), but also civil society organizations, universities, research institutions and the private sector.

Over the past years, UNDP deployed efforts in strengthening its international partnerships and pooling appropriate technical resources in order to meet the MDGs. In early 2000, UNDP created the Bureau for Resources and Strategic Partnerships to coordinate and improve communication with donor countries, civil society organizations, foundations, international financial institutions, regional development banks, the private sector and all the other UN branches[61]. Partnerships extend to other implementing and executing agencies. DFID's Assessment of Multilateral Effectiveness (2005) ranked UNDP as the highest among international organizations in terms of organizational effectiveness[62].

3.3.7 The cost structure of the organization

To manage trust funds, UNDP typically charges between 2 and 9%, depending on the services covered, with 9% usually covering professional technical advice costs. UNDP's 2004 cost recovery policy is based on a set of harmonized principles endorsed by its Executive Board in its Decision 2004/30. The policy reflects two types of recovery that apply to two distinct categories of services defined below:

1. General Management Support (GMS):
GMS encompasses general oversight and management functions of UNDP HQ and CO units, and include the following specific services:

- Project identification, formulation, and appraisal
- Determination of execution modality and local capacity assessment
- Briefing and de-briefing of project staff and consultants
- General oversight and monitoring, including participation in project reviews
- Receipt, allocation and reporting to the donor of financial resources
- Thematic and technical backstopping through Bureaus
- Systems, IT infrastructure, branding, knowledge transfer

2. Implementation Support Services (ISS):

[60] **United Nations**, Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *Report on the Annual Session 2005 (13 to 24 June 2005, New York)*, Second regular session 2005.
[61] **UNDP**, Strategic Partnerships, *At the cutting edge of new approaches*, http://www.undp.org/partnerships/
[62] Organization effectiveness is measures based on the following 8 factors: 1) corporate governance; 2) corporate strategy; 3) resource management; 4) operational management; 5) quality assurance; 6) staff management; 7) monitoring evaluation and lesson learning; and 8) reporting of results.

These are services provided mostly by Country Offices in the implementation of Regular and Other Resource-funded programmes and projects (i.e. costs directly related to the delivery of programmes), and include:

- Payments, disbursements and other financial transactions
- Recruitment of staff, project personnel, and consultants
- Procurement of services and equipment, including disposal
- Organization of training activities, conferences, and workshops, including fellowships
- Travel authorization, visa requests, ticketing, and travel arrangements
- Shipment, custom clearance, vehicle registration, and accreditation

Financial audits and evaluations are coordinated by the Office of Audit and Performance Review of UNDP, with independent consultants. This Office provides auditing reports and recommendations to the Board of Auditors, in charge of submitting all the recommendation reports of the Secretary-General and the executive heads of United Nations organizations and programmes to the General Assembly, twice a year[63].

3.3.8 Fundraising capacity

UNDP's core funding comes from voluntary contributions of member states, from the north and south. In 2005 voluntary contributions to UNDP exceeded $930 million. All members of the OECD/DAC have maintained or increased their contributions in local currency terms for the past five years.

Recent trends have shown a significant increase in non-core contributions to UNDP. In 2004, non core contributions reached almost $3 billion, an increase of 37% over the level achieved in 2003. Donor co-financing, including third-party cost-sharing and trust funds, amounted to some $1.7 billion, an increase of about 60%. Local resources, which refer to resources channeled through UNDP by programme countries in support of their own development, rose to $1.2 billion in 2004 - a 10% increase over 2003. Today, in total, UNDP is a $4 billion grant based organization.

At the country level, UNDP manages a sizable non-core portfolio, of government and international finance institution loan funds, with a view to help ensure their effective and efficient management, oversight and delivery. This is done in accordance with national systems and procedures and on the official request of national and local governments. The package of services offered by UNDP, in the engagement of such funds, includes policy advisory services, capacity development, management and monitoring mechanisms, international audit, financial reporting and accounting standards, and procurement and implementation support. Where UNDP is asked to provide such service support, an exit strategy is ensured in the contract, together with capacity development support, to transfer such to national or local entities within an agreed time frame.

[63] **United Nations**, Executive Board of the United Nations Development Programme and of the United Nations Population Fund, UNDP: *Report on implementation of the recommendations of the Board of Auditors for the biennium 2000-2001*, First regular session 2003.

3.4 UNEP

UNEP was created by the General Assembly in 1972 as a response to environmental threats posed by human action. It is managed by a Governing Council composed of 58 elected members, for four-year terms, taking into account the principle of equitable regional representation. UNEP's Governing Council shall normally hold one regular session every two years[64]. The Governing Council reports to the General Assembly through the Economic and Social Council.

The Environment Fund is the principal source of financing for UNEP's activities and projects. UNEP also benefits from earmarked funding for specific activities, provided through Trust Funds and Earmarked contributions. In addition, the UN Foundation supports UNEP projects in the areas of biodiversity and climate change[65]. UNEP is involved in administering several trust funds, as the Multilateral Fund, which is the biggest UNEP trust fund, where UNEP mainly serves as treasurer[66]. The numbers of trust funds and their expenditures have increased steadily over the years. From 1992 to 2004, UNEP increased its managing trust funds portfolio from 43 to 74. Since 1998, UNEP separates the financial reporting on the trust funds supporting the UNEP's Programme of Work (48 trust funds) from other trust funds like conventions that are managed by independent governing bodies (26 trust funds). In 2004-2005, direct support from trust funds amounted to US$ 91.01 million[67]. Some financing problems are occurring as 95% of total financing comes from only 20 countries. Unpredictable payments and inadequate balance funds tend to make strategic planning work somewhat difficult[68]. This situation is being reinforced by the fact that contributions are made on a voluntary basis.

UNEP is one of the three IAs of the GEF. By April 2004, UNEP/GEF was managing a work program worth US$ 774 million including US$ 417 million in GEF resources. UNEP provides guidance and assessments on GEF-financed activities with regards to global, regional and national environmental priorities, policy frameworks and plans and international environmental agreements[69]. UNEP action is supported by various scientific advisory groups, like the GEF STAP, which provides strategic advices on global environmental threats and solutions[70].

UNEP has a key role to play in understanding, mitigating and adapting to climate change. The UNFCCC convention is the main guidance of UNEP's action on climate change[71]. UNEP climate change enabling activities in 2004-2005 are focused on developing adaptive capacity for developing countries through the implementation of national and regional initiatives aimed at reducing climate change effects[72]. UNEP is managing several projects in adaptation, such as UNEP's Glacial Lake Outburst Flood project in the Hindu-Kush Himalayan region, which seeks to preserve the population livelihoods by preparing an

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[64] **UNEP**, *Resources for Government Officials*, Overview, http://www.unep.org/resources/gov/overview.asp.
[65] **UNEP**, *Financing of UNEP*, http://www.unep.org/rmu/en/Financing_of_UNEP/index.asp.
[66] **UNEP**, *Trust Funds*, http://www.unep.org/rmu/en/Financing_of_UNEP/Trustfunds/index.asp.
[67] *UNEP. The Status of the Environment Fund. Fund Report, 2005 No.4, 4th Quarter.* 26 January 2006.
[68] **UNEP**, *Environment Fund*, http://www.unep.org/rmu/en/Financing_of_UNEP/Environment_Fund/index.asp.
[69] **UNEP/DGEF**, Division of Global Environment Facility Coordination, *UNEP in the GEF*, http://www.unep.org/gef/content/index.htm.
[70] **UNEP/DGEF**, *STAP- The Scientific and Technical Advisory Panel of the GEF*, http://dgef.unep.org/About_GEF/STAP/.
[71] **UNEP**, Annual Report 2005, *A Changing Climate*, http://www.unep.org/AnnualReport/2005/Annual_Report12_A_Changing_Climate.pdf.
[72] **UNEP**, *Climate Change Focal Areas*, http://www.unep.org/themes/climatechange/Focus_Areas/index2.asp.

inventory of glaciers and glacial lakes, developing an early warning system and identifying other adaptation measures. Another project, the Capacity Building for the Development of Adaptation in Pacific Island Countries project, seeks to bring benefits to populations at risk in low-lying lands and flood-prone areas. UNEP has also been working with GEF to prepare NAPAs for several developing countries, such as Haiti, Liberia and Tanzania, in order to identify threats and solutions linked with climate change. 100 countries are benefiting from UNEP and UNDP expertise and support in adaptation to climate change[73]. Together with the World Meteorological Organization, UNEP established in 1988 the Intergovernmental Panel on Climate Change to collect information on existing knowledge about climate change, its environmental, economical and social impacts as well as the different responses available[74].

UNEP hosts an Evaluation and Oversight Unit (EOU), which reports and assesses on UNEP projects and activities for a better overall RBM. EOU ensures that all evaluation recommendations are complied with and acted upon. In this respect, EOU will monitor the implementation of evaluation recommendations and report to Senior Management Group on progress being made and non-compliance. EOU submits Annual Evaluation Report to the Governing Council, as an intersessional document, through the Executive Director. The Annual Evaluation Report represents a synthesis of all evaluations carried out by UNEP during the year. It summarizes the finding and recommendations focusing on those that impact system-wide programme delivery[75].

UNEP adopted the results-based budgeting system in 1999 and the system was implemented in the 2000-2001 biennial work programme. The system enables UNEP to integrate programming and budgeting for each biennium with indications of expected outcomes. The costed work programme forms the core of UNEP activities and covers work in all seven sub-programmes. A programme monitoring report is used as a management tool to keep track of the status of programme implementation. It also forms the basis for UNEP input to the Secretary General's biennial programme performance report[76].

According to the *UNEP Project formulation, approval and monitoring and evaluation Manual*, UNEP projects must be formulated within the framework of the Results Management Model (RMM). This format includes four main elements namely: needs, results, outputs and activities. Programme officers preparing a project must consider the process right from the project idea and the indication of needs, to the formulation of results and outputs. UNEP project elements are designed to form a logical hierarchy that originates from needs and results, but can be implemented from inputs and activities. To assist this process, the Project Document format includes the Logical Framework Matrix[77].

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[73] *Loc. cit.*
[74] **UNEP**, *The Intergovernmental Panel on Climate Change (IPCC)*, http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=43&ArticleID=206&l=en.
[75] **UNEP**, Evaluation and Oversight Unit, *About Evaluation Oversight Unit*, http://www.unep.org/eou/About/index.asp.
[76] **UNEP**, Project Formulation, Approval and Monitoring and Evaluation Manual, *The UNEP Logical Framework*, http://www.unep.org/Project_Manual/1.0.asp.
[77] **UNEP**, Project Formulation, Approval and Monitoring and Evaluation Manual, *Introduction*, http://www.unep.org/Project_Manual/2.2.asp.

3.5 World Bank

The World Bank is composed of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). IBRD provides financial help for middle income and creditworthy poor countries meanwhile IDA is devoted to help the poorest countries. The goal is to provide low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure, communications and many other purposes[78]. Their main operations are concentrated in fund generation, loans, grants, analytic and advisory services and capacity building.

There are 184 shareholders countries, represented by the Board of Directors who are the policy makers of the bank. The Board of Directors meets annually, and it delegates specific duties and general operations of the Bank to 24 Executive Directors: 5 to the largest shareholders and 19 to represent the rest of the shareholders[79]. Executive directors are elected every two years, with a special attention to maintain a wide geographical and balanced representation[80].

100 countries actually benefit from World Bank project loans and financial assistance, which amount to $15-20 billion every year. A wide range of areas is covered by this aid, including health, education, infrastructure, government financial management, environment, corruption prevention and fighting, and others[81].

Donors have put 850 trust funds in the hands of the World Bank, which are not part of the organization's own resources. These financial and administrative arrangements allow grant funding of high-priority development needs, including technical assistance and advisory services, debt relief, and post-conflict transition[82]. More than 20 consultations are led every year with bilateral and multilateral organizations to review individual projects with co-financing potential and trust fund opportunities[83].

Because climate change is deeply linked to development issues, the World Bank is taking a special approach to climate change management, in order to adapt to climate change effects that are affecting developing countries. It is thus committed to reducing greenhouse gas emissions causing global warming and is dedicated to promoting low carbon emission economies. Working for a special framework for

[78] **The World Bank**, *About Us*, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20046292~menuPK:51123588~pagePK:50004410~piPK:36602~theSitePK:29708,00.html.

[79] **The World Bank**, About Us, *Organization*, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040580~menuPK:1696997~pagePK:51123644~piPK:329829~theSitePK:29708,00.html.

[80] **The World Bank**, Boards of Directors, *Executive Directors*, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:50004945~menuPK:64020014~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html.

[81] **The World Bank**, Projects and Operations, *Project Cycle*, http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120731~menuPK:41390~pagePK:41367~piPK:51533~theSitePK:40941,00.html.

[82] **The World Bank**, Projects and Operations, *Financing instruments*, http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120721~menuPK:232467~pagePK:41367~piPK:51533~theSitePK:40941,00.html.

[83] **The World Bank**, Concessional finance and global partnerships, *Cofinancing*, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0,,contentMDK:20135714~menuPK:64060209~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html.

climate change management, clean energy and sustainable development, the World Bank has set up three initiatives; the first one seeks to facilitate the dialogue among G8 countries, industrialized countries and developing countries about long-term strategies to thwart climate change beyond 2012, which is the last year of the Kyoto Protocol. The second initiative, an investment framework, put on with various stakeholders from the private sectors financiers, export credit agencies, multilateral development banks and re-insurers to finance and broaden the use of clean energy sources and finance adaptation projects aimed at protecting developing countries from the adverse effects of climate change. The third initiative is a facilitating process for World Bank lending for low carbon climate friendly economic development[84].

These initiatives are coherent with the specific area of adaptation, while the World Bank is committed to assist developing countries in meeting their needs to adapt to climate change. The Bank seeks particularly to help developing countries in integrating issues of climate variability and provide assessment in national economic and sector planning, which is addressed in a report called *Poverty and Climate Change: Reducing the Vulnerability of the Poor through Adaptation*, produced in collaboration with many other institutions. The Bank will also support developing countries to access the new funds that are made available for adaptation through the GEF and Kyoto Protocol.

An example of donor financing mobilization from the Bank is the Vulnerability and Adaptation Facility (VAF) and the Disaster Management Facility, to support small-to-medium-term strategic priorities[85]. Among climate change and adaptation initiatives, there is the new policy note on adapting to natural hazards in the Pacific Islands region[86], as well as projects in the Caribbean region to mainstream adaptation to climate change and build capacity to analyze policy options and integrate adaptation into national development, an integrated national adaptation program in Colombia, a study on community perception of vulnerability to climate change in Kiribati, with re-prioritization of national development agenda with regards to community-recommended lines, and others.

Since 1990, the World Bank spent more than US$ 6 billion in energy efficiency and renewable energy projects and programs in developing countries and mobilized more than an additional US$10 billion for the same purposes from private and public sources. Moreover, the Bank has contributed to the development of carbon markets, launching the first carbon market prototype in 1999 and has launched a series of new carbon funds like the Community Development Carbon Fund (CDCF), which provides carbon finance to small poorer countries and communities; the BioCarbon Fund (BCF), which extends carbon finance to forestry and land use projects; the Netherlands (Clean Development Mechanism (CDM)

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[84] **The World Bank**, Climate Change, *G8 and climate change follow up*, http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20432982~menuPK:34480~pagePK:64257043~piPK:437376~theSitePK:4607,00.html.

[85] **The World Bank,** Environment Strategy for the World Bank, *Climate Change, Annex F,* http://siteresources.worldbank.org/INTCC/Miscellaneous/20733920/EnvStrategyAnnexF2001.pdf,

[86] **The World Bank**, East Asia and Pacific Region, Pacific Islands Countries Management Unit, *Adapting to natural hazards in the Pacific Islands region*, http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/Natural-Hazards-report.pdf?.

and Joint Implementation (JI)[87] Facilities; the Italian Carbon Fund; The Spanish Carbon Fund; and the Danish Carbon Fund. A ninth Fund, the Carbon Fund for Europe, is on its way[88].

With its wide development experience, the World Bank has put a strong emphasis in complying and adjusting its development strategies according to lessons learnt. Recognizing the importance of a country-driven approach in development, the World Bank focuses on helping governments to take the lead to prepare and implement country development strategies. This new approach is explained in the *Comprehensive Development Framework*, which since 1999, guides the Bank through four principles: development strategies must be shaped by a long-term vision; the development strategies must be country-driven, with a wide local participation; stakeholders partnerships must be emphasized and development performance should be measured by effective indicators and results on the ground, in order to adjust projects to an ever changing context in which they are taking place[89].

The Bank promotes monitoring and different types of independent evaluations as management tools within projects by emphasizing the importance of monitoring as an integral part of day-to-day project management, and by highlighting the advantages of lessons learnt from an evaluation of selected projects. Plans for M&E are to be included in all Bank-funded projects, but their relative emphasis, scope, and organization will vary, depending on the project and the implementing agency. The Bank's M&E systems are built into projects to clarify project or program objectives and how they are to be met, track progress, and identify areas where adjustments may be needed. Throughout the project cycle, periodic reports on progress against objectives are monitored[90]. Evaluations of individual project include implementation completion reports, project assessment performance reports, impact evaluation reports and inspection panel reports. Broader activities are monitored through country assistance evaluations, sector and thematic reviews and process reviews[91].

Task teams are asked to carry out bi-annual project supervision and prepare a project status report (PSR) to the regional management. Most projects are subject to mid-term reviews to assess the progress of the project toward meeting their development objectives. All projects are evaluated by task teams at the time of closing for their success or failure in addressing the stated development objectives[92].

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[87] The Clean Development Mechanism, (CDM) and Joint Implementation (JI) are flexible mechanisms under the Kyoto Protocol that allow OECD countries to fulfill some of their greenhouse gas emission-reduction commitments through projects in the developing world (CDM) and countries with economies in transition (JI) .

[88] **The World Bank**, Climate Change, *G8 and climate change follow up*, http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20432982~menuPK:34480~pagePK:64257043~piPK:437376~theSitePK:4607,00.html.

[89] **The World Bank,** Projects and operations, *Comprehensive Development Framework*, http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120725~menuPK:41393~pagePK:41367~piPK:51533~theSitePK:40941,00.html.

[90] **The World Bank,** Independent Evaluation Group, *Evaluation Tools*, http://www.worldbank.org/oed/oed_tools.html.

[91] **The World Bank,** Projects and operations, *Measuring Results*, http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120723~menuPK:41393~pagePK:41367~piPK:51533~theSitePK:40941,00.html.

[92] **The World Bank,** Independent Evaluation Group, *Evaluation Tools*, http://www.worldbank.org/oed/oed_tools.html.

4 Analysis of Key Merits and Challenges for the Main Institutional Options Reviewed

The following table presents key information on three main alternatives for the management of the Adaptation Fund with regards to all predefined review criteria that are listed and explained under Section 2 of the report.

Table 2 – Summary Information on 3 Major Alternatives for the Management of the Adaptation Fund Against Predefined Review Criteria

Criteria	GEF	Multilateral Fund	UNDP
1. Existing decision making structures • Flexibility, accountability and transparency in decision making structures • Governing body that has a balanced representation from developed and developing countries • Capacity for strategic planning	• GEF Assembly consists of representatives of all Parties • GEF Council reviews GEF policies, programs, operational strategies and projects and acts as the focal point for the COP • Operational structure: ➢ 15 operational programs ➢ Operational priorities ➢ 6 focal areas • Consensus based, hybrid model in case of votes • Accountability ensured through independent evaluations • Presence of strategic documents and plans	• Financial mechanism of the Montreal Protocol, operates pursuant to Article 10 of the Montreal Protocol • Executive Committee oversees the Fund operations • The Chairman and Vice-Chairman are selected from the members of the Executive Committee. The office of the Chairman is subject to rotation on a yearly basis, between Article 5 Parties and non-Article 5 Parties. • Fund Secretariat manages day-to-day operations • Consensus based, 1 member-1 vote model • Accountability ensured through independent evaluations and ongoing monitoring of implementation • Presence of strategic documents and plans	• Executive Board oversees and supports the activities of UNDP • Decentralized structure with country offices input on decision making process • Management review expanded mechanisms to strengthen programmatic approach • Consensus encouraged, 1 member-1 vote model • Accountability ensured through independent evaluations • Presence of strategic documents and plans
2. Access and representation of the organization in non-Annex I Parties • Existing representation in non-Annex I countries/regions • Existence of capacity building and communication functions with a wide array of local stakeholders likely to be involved in adaptation activities • Existence of communication mechanisms between non-Annex I Parties and Institution • Typical qualification of the representation on global issues in countries and/or regions	• GEF Council: 32 members: 18 from recipient countries, 14 from non-recipient countries. The 18 recipient constituencies are distributed as follows: 6 are from Africa, 6 are from Asia and the Pacific, 4 are from Latin America and the Caribbean, and 2 are from Central, Eastern Europe and the former Soviet Union. • GEF focal points within countries around the world • IAs have representation in most countries • National dialogue workshops	• Executive Committee: 7 members from Article 5 countries (developing countries) and 7 from non-Article 5 countries (developed countries). Distribution of the 7 developed country seats is: USA, Japan, CANZ, Large European, Nordic, East Europe, and other European countries. The 7 developing country members come from the following constituencies: Africa (2 members), Latin America and the Caribbean (2 members), Asia and the Pacific (2 members), 1 Rotating Seat to each region and the fourth year to Europe and Central Asia.	• Executive Board composed of 36 representatives: 8 from African States, 7 from Asian and Pacific States, 4 from Eastern European States; 5 from Latin American and Caribbean States; 12 from Western Europe and other States • Rotational Presidency between regions • Emphasis on decentralization • Country offices in most developing countries (25 exceptions, mainly SIDS) • 5 Regional Centres: Bratislava, Bangkok, Colombo, Suva, Johannesburg • COs communicate directly with national governments

Criteria	GEF	Multilateral Fund	UNDP
	• GEF is structured as a network	• Office of Chairman rotates on a yearly basis between Article 5 and non-Article 5 countries • IAs have representation in most countries	
3.a) Capacity to design, implement, (program and project management) • Capacity to respond to Convention guidance • Capacity for long term strategic planning and disbursement in the organization linked with expected outcomes and impacts regarding adaptation to climate change • Capacity to review and prioritize projects • Capacity to implement a country-driven approach • Capacity to design sustainable project selection criteria • Capacity to use effective implementation processes and procedures	• Annual reports to the COPs (UNFCCC, CBD, CCD and POPs) • Demonstrated capacity to respond to COP guidance through its network. A document entitled *Institutional Relations* is prepared to interpret and implement COP guidance • 10 operational principles serve as basis to project review criteria, one of which is country-ownership • Strategic priorities for each focal area • Resource Allocation Framework for trust fund activities (not applicable to adaptation-related funds) • IAs: World Bank, UNEP, UNDP • IAs promote country ownership • EAs with varied and vast expertise, including regional development banks • Through its structure, the GEF has access to the comparative advantages of its IAs and EAs	• Responds directly to the COP (Meetings of the Parties) • Demonstrated capacity to respond to convention guidance • Executive Committee develops and monitors the implementation of operational policies, including: ➢ project eligibility criteria ➢ guidelines for implementation of activities • IAs: World Bank, UNEP, UNDP, UNIDO. • IAs promote country ownership • Recipient countries strongly associated to projects	• Demonstrated capacity to respond to convention guidance through its COs and its organizational efficiency • Design based on national priorities • Strong influence on lessons learning and knowledge management in the design and implementation of projects • Focus is put on local resources • Implementation decentralized to country offices • Country offices promote country ownership • Capacity building comparative advantage • Technical assistance comparative advantage
3.b) Capacity to monitor and evaluate (program and project management) • Adequacy, predictability and timely disbursements of funds • Capacity in organizing independent monitoring and evaluation processes, and, Use of Result-Based Management as a key design, implementation and Monitoring & Evaluation (M&E) tool • Capacity to adapt to change through	• Independent evaluation office for the trust fund • GEF trust funds to be spent according to Resource Allocation Framework (not applicable to the new adaptation-related funds) • Lengthy project cycle, but improving • Streamlined project cycle for the LDCF • M&E plans for full-size and medium-size projects required at approval in the	• An independent M&E function within the Fund Secretariat • Performance-based funding (RBM) and ongoing monitoring • Very short project cycle • Uniform reporting process to easily monitor projects • Project completion reports submitted by the IAs	• Independent UNDP monitoring and evaluation office • Use of RBM • Relatively rapid project cycle • Performance assessment at global, regional and country levels • Balanced score card system to annually measure organizational efficiency and effectiveness • Multi-year Funding Framework

Criteria	GEF	Multilateral Fund	UNDP
monitoring activities, learning-by-doing approach	case of projects under the GEF Trust Fund • • IAs design M&E plans and performance indicators, conduct terminal evaluation reviews • Use of Resource Based Management (RBM) for adaptive management – just starting. Used by some IAs already • Project performance reports • Project implementation reviews		measures UNDP's contribution to development effectiveness
4. Experience and capacity in the field of Climate Change, and in particular adaptation / Complementarity and potential for synergies with the core business of the institutions • Knowledge, skills and experience in projects related to adaptation to climate change • Complementarity and synergies with activities related to other global environmental issues which could allows for more effective project design, management and resource allocation	• Large and very diverse portfolio of climate change projects implemented through its IAs and EAs • Mandate includes building capacity of developing countries to address the adverse impacts of climate change by: ➢ assessing vulnerability to climate change, ➢ identifying and implementing adaptation measures • Management of the SPA • Management of the LDCF which supports NAPA preparation and implementation, and the SCCF • Strong potential for synergies	• Because the Multilateral Fund's mandate is to implement the Montreal Protocol, the Fund was suggested by Parties as a governance model for the management of the Adaptation Fund. It is therefore not relevant to assess the Multilateral Fund's experience in the climate change nor adaptation areas.	• Largest UN source for technical assistance for global environment management • 400 large and 1000 small-scale projects delivering climate change benefits exceeding US$2billion • US$ 40 million for adaptation projects • Involvement with NAPA • Capacity to mainstream adaptation into national development planning • Possibility to create an extra service line to respond to adaptation to climate change needs • Strong potential for synergies
5. Absorptive capacity • Capacity to provide structural learning and administrative simplification for the Adaptation Fund	• Demonstrated capacity through: ➢ Management of the LDCF, and the SCCF ➢ Management of various trust funds ➢ Financial mechanism of the UNFCCC, CBD, CCD, and POPs Conventions • World Bank is the trustee of the GEF Trust Fund (manages over 850 TFs) • Simplification and harmonization of	• UNEP is treasurer of the Fund. • Because the Multilateral Fund's mandate is to implement the Montreal Protocol, the Fund was suggested by Parties as a governance model for the management of the Adaptation Fund. It is therefore not relevant to assess the Multilateral Fund's experience in the climate change nor adaptation areas.	• Delivered $4.2 billion in resources in 2005 • Experience in managing funds like democratic governance and gender thematic trust funds, GEF and Global Fund to fight Aids, Malaria and Tuberculosis • Simplification and harmonization of procedures taking place • Clear potential for absorption

Criteria	GEF	Multilateral Fund	UNDP
	procedures taking place • Clear potential for administrative simplification and absorption		
6. Networking capacity • Capacity to cooperate with COP/MOP, other funding partners and implementing agencies • Capacity to pool technical resources	• GEF's governance is oriented to respond to Convention guidance. Set of policy skills in place • GEF is structured as a network. It works with 3 IAs (UNDP, UNEP, the World Bank) and various EAs (regional banks, FAO, UNIDO, IFAD) • Access to STAP, focal points and IA and EA networks of expertise in CC.	• Responds directly to COP authority • Responds to convention guidance on ODS and set of policy skills required • Capacity to pool technical resources through IAs and their pool of experts from industry and NGOs • Solid informal networking structure on ODS, where regional networks meet twice a year to discuss regional issues	• Capacity to respond to convention guidance and set of policy skills • Creation of Bureau for Resources and Strategic Partnerships • UNDP's vast Energy and Environment network from which to pool technical resources • Capacity to partner with national, bilateral and international organizations
7. Cost structure of the organization • Costs structure of the organization (material and equipment required to manage the Fund, travel costs, operation costs, appropriate human resources available) • Capacity to meet minimum international fiduciary standards and willingness to be submitted to independent financial audits	• Infrastructure already in place and experienced human resources • IA project fees are 9%, it includes M&E • For the LDCF, US$ 32.5 million were received and 11.3 million were allocated. In addition to IA fees, administrative fees represent 5.3 % of total allocations so far • Independently audited and evaluated prior to each replenishment	• US$ 2.3 billion disbursed since creation of the Fund • Fee-basis with IAs to cover project costs: In the case of IBRD, UNDP, UNIDO – 7.5 % for projects with a project cost at or above US $250,000, and 9 % for projects with a project cost below US $250,000, plus a US $1.5 million core unit budget. In the case of UNEP – agency support cost of 8 % for the budget of the compliance assistance programme, and a support cost of 13 % for all other projects • In 2005, support costs to all four IAs amounted to US$ 18.45 million. Secretariat costs totaled US$ 4.49 million, of which the treasurer (UNEP) received US$ 0.5 million, and total allocations amounted to US$ 218.05 million • Independently audited	• Infrastructure already in place and experienced human resources (400 full time professionals in environmental issues, in 140 countries) • Trust Fund management fee varies from 2 to 9%, depending on services covered. • Independently audited

Criteria	GEF	Multilateral Fund	UNDP
8. Fundraising capacity • Capacity to leverage co-financing and sustainable fundraising	• US$ 2 billion allocated to CC projects from 1991 • US$ 10 billion in co-financing leveraged for GEF CC projects • As an example of capacity to leverage funds, US$ 40.5 million was raised in co-financing for the LDCF • GEF can build on the vast leveraging capacity of all its IAs and EAs	• Raised awareness and funds to cover research and implementation of policy measures • Certain donors cover special activities of the Fund • Estimated amounts of co-financing is 30% of the estimated total cost of projects including local counterpart contribution	• Manage $3 of non-core resources for $1 of core resources • US$ 3 billion in co-financing for GEF projects, while US$ 1.8 billion was received from GEF grants for UNDP-GEF portfolio • Co-financing in climate change activities commonly amount to five times UNDP channeled resources

5 Conclusions

Based on the information presented in the table above and in Section 3 of the report, the three main alternatives reviewed for the management of the Fund each provide merits and challenges. These alternatives can either integrate the Fund's management process within the institution, using existing implementation, executing and networking channels and procedures (the GEF and UNDP), or can inspire the creation of a different governance structure (Multilateral Fund). The decision as to the best alternative, in the end, rest on what weight is given to a particular criteria or another in the selection process, an issue which is best left to the political process.

<u>The GEF</u>

The GEF was established in 1991 to provide financing to developing countries for global environmental protection and conservation projects, and is governed by an Assembly and a Council. The Assembly consists of representatives of all Parties and meets once every three years. It operates on a consensus basis. The Council meets twice a year or as frequently as necessary. It consists of 32 members, who represent constituency groupings of participants, of which 18 members are from recipient constituencies, 14 are from non-recipient constituencies.

The GEF has a considerable networking structure, as the organization can rely on a vast array of implementing and executing agencies with specific expertise to help design and implement projects and generate knowledge. According to their specialties and comparative advantages, GEF may use the services of UNDP, UNEP, World Bank and several international banking and UN institutions to carry out operations on the ground. This implementing system increases the pool of expertise that is available for the GEF and its reach. On the other hand, this structure also has an impact on the project cycle length, as there is a need to design and approve projects at both GEF and implementing agency, and often executing agency levels. This structure is seen by some as putting distance between the institution and the stakeholders on the ground. With respect to projects that address LDC's adaptation needs, a streamlined modality has been proposed that will significantly expedite the preparation, approval and implementation of projects to be financed by the LDCF.

GEF has experience in climate change issues and in adaptation, since climate change is one of the six focal areas of the organization. The GEF already has experience in managing climate change and adaptation funds, such as the SPA, the SCCF, and supporting the NAPAs under the LDCF. The GEF has departed from the incremental cost principle and the concept of generating global environmental benefits by applying the additional cost principle in all projects that address adaptation under the new adaptation-related funds (SCCF and LDCF). The new funds do not apply the RAF. Globally, the GEF has expertise on adaptation issues and general know-how in funds management, which provides potential for synergies with the core business of the institution. On the technical side, the GEF can rely on its Scientific Technical Advisory Panel and the technical networks managed by its IAs and EAs to assess adaptation needs and project designs.

As for its fund raising capacity, the GEF was able to leverage US$10 billion in co-financing, from which 2 billions went for climate change projects since 1991. The GEF is able to rely on the leveraging capacity of numerous IAs and EAs, with their entries in diverse constituencies.

Administrative fees for each project is set at 9% for its IAs and EAs, and includes all M&E activities. Trustee charges added annually as part of the budget, are linked to actual services provided and therefore, benefit from economies of scale, consistent with the World Bank Trustee Agreement (the World Bank has managed over 850 Trust Funds so far for different constituencies in addition to selling its own bonds to raise capital for its operations).

Multilateral Fund

The Montreal Protocol on Substances that Deplete the Ozone Layer (herewith referred to as the Montreal Protocol) was adopted in September 1987. The Multilateral Fund acts as the financial mechanism of the Protocol.

The Governance structure and decision-making process of the Multilateral Fund offers an interesting model that could inspire the management structure for the Adaptation Fund. The Multilateral Fund is recognized to fully operate under the authority of the COP. The Executive Committee is composed of an equal number of Article 5 countries and non-Article 5 countries, with a yearly basis rotation of the Office of Chairman, between Article 5 and non-Article 5 countries. Its voting structure is designed to ensure that neither donors nor recipients could dominate, and consensus is the only decision-making tool used up to now within the Executive Committee. The Multilateral Fund works with several IAs, UNEP, World Bank, UNDO and UNIDO, and, through them, has a representation in most countries.

The IAs bring an added value in leading project operations, with an emphasis on country ownership. In this regard, recipient countries are strongly associated to project design and implementation. The project cycle is short, even though projects are implemented through other institutions (IAs), in line with the clear targets and design options for ODS. The funding is performance-based and follows the evaluation guidelines of the Multilateral Fund. The Executive Committee has to approve the evaluation programme on a yearly basis.

The Multilateral Fund disbursed US$ 2.3 billion for projects since its creation. The performance can be well assessed as the ODS threat has been reduced considerably in the past decade. The operational costs for the Multilateral Fund Secretariat amounted to US$ 4.49 million in FY 2005 (including the treasurer fee of US$ 0.5 million), while IAs received US$ 18.15 million and total allocations amounted to US$ 218.05 million (including operational and IAs costs).

The governance structure of the Multilateral Fund provides an interesting framework for the management of the Adaptation Fund. If this model were to be selected by the Parties as the best option for the management of the Adaptation Fund, it would require the creation of a new structure, inspired and based on the model and experience of the Multilateral Fund. In addition to recurrent management costs, this option would thus also involve start up costs related to the creation of such a structure.

UNDP

UNDP was created by the General Assembly with the purpose of being the main UN agency to promote development throughout the world. UNDP is governed by an Executive Board composed of 36 members. These members are elected by the Economic and Social Council in May each year. The Board oversees and supports the activities of UNDP, and ensures that the organization remains responsive to the evolving needs of programme countries. UNDP is organized in five Practices, which are crisis prevention and recovery, democratic governance, energy and environment, HIV/AIDS and poverty reduction.

UNDP comprises a headquarters, and 5 Regional Centres working for specific clusters of 166 country offices. UNDP provides a range of services to governments and to United Nations teams via the UNDP Country Offices. In order to better support these offices UNDP also provides networked expertise via these Regional Centres whose teams liaise both with the UNDP Country Offices and UNDP Headquarters via a group of expert Policy Specialists. UNDP draws on a network of close to 5,000 staff and a wide range of knowledge networks with a membership of approximately 14,000.

As one of the IAs of the GEF and the Montreal Protocol (MLF), UNDP has become the largest UN source for technical assistance for global environment management, providing about US$ 6 billion to date (US $2.5 billion in GEF and MLF grants with an additional $3.5 billion in co-financing from local communities, national institutions, private sector and governmental and non-governmental development agencies). In the field of climate change, UNDP supports over 400 large and 1000 small-scale projects delivering climate change benefits. UNDP has an expanding pipeline of adaptation-related projects currently standing at around US$ 100 million, of which US $40 million is for piloting adaptation projects in over 100 countries. UNDP is also involved with 29 Least Developed Countries to prepare their NAPAs and assess them with vulnerability and national priorities. UNDP had developed an adaptation programming kit to help countries develop adaptation projects.

UNDP's core funding comes from voluntary contributions of member states, from the north and south. In 2005 voluntary contributions to UNDP exceeded US $930 million. As well, recent trends have shown an increase in non-core contributions to UNDP. In 2004, non core contributions reached almost US$ 3 billion, an increase of 37% over the level achieved in 2003. Donor co-financing, including third-party cost-sharing and trust funds, amounted to some US$ 1.7 billion, an increase of about 60% from the year before. Local resources rose to US$ 1.2 billion in 2004, a 10% increase over 2003. Today, in total, UNDP is a US$ 4 billion grant based organization.

UNDP manages a number of global programmes and trust funds. To manage trust funds, UNDP typically charges between 2 and 9%, depending on the services covered, with 9% usually covering professional technical advice costs. Financial audits and evaluations of UNDP are coordinated by the Office of Audit and Performance Review of UNDP, with independent consultants.

Annex A – Table of Review Criteria and Key Indicators

Criteria	Indicators	Sources
1. Existing decision making structures		
1.1 Capacity for strategic planning	• Existence of strategic planning documents • Existence of organizational action plans to enact these strategies	• Desk review and interview • Desk review and interview
1.2 Flexibility, accountability and transparency in decision making structures	• Quality of reporting on decision making steps and transparency of process • Examples of adaptation to new decision making process for the management of specific funds • Feedback mechanisms in place	• Desk review and interview • Interview • Desk review and interview
1.3 Governing body that has a balanced representation from developed and developing countries	• Analysis of the governing body's composition	• Desk review
2. Access and representation of the organization in non-Annex I Parties	• Existing representation in non-Annex I countries/regions • Typical qualification of the representation on global issues in countries and/or regions • Existence of capacity building and communication functions with a wide array of local stakeholders likely to be involved in adaptation activities • Existence of communication mechanisms between non-Annex I Parties and Institution	• Desk Review • Interview • Interview • Interview
3. Capacity to design, implement, monitor and evaluate (program and project management)		
3.1 Capacity to respond to Convention guidance	• Past experience in analysing and responding to various COP guidance through future programming	• Desk review and interview
3.2 Capacity for long term strategic planning and disbursement in the organization linked with expected outcomes and impacts regarding adaptation to climate change	• Availability, in the organization, of reporting on outcomes and impacts produced in view of funding provided	• Desk review and interview
3.3 Capacity to review and prioritize projects	• Mechanisms and processes in place for project prioritization and review in project selection process	• Desk review and interview
3.4 Capacity to implement a country-driven approach	• Review of criteria used so far by the organization for project selection in terms of: o Ownership o Local contribution o Use of local resources in projects; o Conditionality	• Desk review and interview
3.5 Capacity to design sustainable project selection criteria	• Analysis of existing criteria for project selection, in light of sustainability requirements	• Desk review
3.6 Capacity to use effective implementation processes and procedures;	• Existing overall implementation procedures	• Desk review

3.7 Adequacy, predictability and timely disbursements of funds	• Present fund disbursement and budgeting process • Level of satisfaction of key beneficiaries regarding fund disbursements	• Desk review and interview • Interview
3.8 Capacity in organizing independent monitoring and evaluation processes, and, Use of Result-Based Management as a key design, implementation and Monitoring & Evaluation (M&E) tool	• Track record of professional monitoring and evaluation processes (Type, quality and frequency of M&E reporting) • Existence of an independent M&E unit in the organization • Knowledge and promotion of RBM	• Desk review • Desk review • Interview
3.9 Capacity to adapt to change through monitoring activities, learning-by-doing approach	• Experiences in adaptive management	• Desk review and interview
4. Experience and capacity in the field of Climate Change, and in particular adaptation, and complementarity with the core business of the institution		
4.1 Knowledge, skills and experience in projects related to adaptation to climate change 4.2 Complementarity and synergies with activities related to other global environmental issues which could allows for more effective project design, management and resource allocation	• Staff complement with CC and adaptation expertise • Quality, diversity and quantity of projects in the field of adaptation to climate change • Degree to which the institution's core business provides complementarity and synergies with the Adaptation Fund's objectives· • Example of such potential complementarity	• Interview • Desk review • Desk review • Desk review
5. Absorptive capacity		
5.1 Capacity to provide structural learning and administrative simplification for the Adaptation Fund	• Past experience regarding management of a fund • Instruments in use for structural learning and management • Process in place for project review, selection and approval in the organization	• Interview • Interview • Desk review
6. Networking capacity		
6.1 Capacity to cooperate with COP/MOP, other funding partners and implementing agencies	• Past experience in dealing with COP/MOP or similar convention bodies • Staff and mechanisms in the organization devoted to policy functions and inter-institutional cooperation • Perception of organization by other key stakeholders • Track records of working experience with executing and implementing agencies	• Desk review • Interview • Interview • Desk review
6.2 Capacity to pool technical resources	• Access to existing technical network • Past experience in working with such networks	• Desk review • Interview
7. The cost structure of the organization:		
7.1 Costs structure of the organization (material and equipment required to manage the Fund, travel costs, operation costs, appropriate human resources available)	• Absorptive capacity of existing structure to support the Fund's management; o In terms of material and equipment o Basic operational mode (systems, support structure) and start up costs o Human resource qualification and availability • Likely cost effectiveness of structure in view of global nature of funds	• Interview

	o In terms of communication o In terms of travel cost and easy access o In terms of local/regional representation • Existing fee structure to manage other funds	• Desk review • Interview
7.2 Capacity to meet minimum international fiduciary standards and willingness to be submitted to independent financial audits	• Degree to which minimum fiduciary standards are met in the current operating model of the institution; • Past experience regarding independent financial audit application in terms of collaboration and results integration	• Desk review and interview • Interview
8. Fundraising capacity		
8.1 Capacity to leverage co-financing and sustainable fundraising	• Quantity and diversity of financing partners • Track records on ratio of co-financing	• Desk review and interview • Desk review and interview

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