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**SUBSIDIARY BODY FOR IMPLEMENTATION**

**Twenty-fourth session**

**Bonn, 18–26 May 2006**

**Item 6 (a) of the provisional agenda**

**Financial mechanism (Kyoto Protocol)**

**Adaptation Fund**

## **Views on possible arrangements for the management of the Adaptation Fund**

### **Submissions from intergovernmental organizations**

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), by its decision 28/CMP.1, invited international organizations to submit to the secretariat, by 13 February 2006, their views on possible arrangements for the management of the Adaptation Fund for consideration by the Subsidiary Body for Implementation (SBI) at its twenty-fourth session.
2. The secretariat has received six such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\* in the language in which they were received and without formal editing.
3. The COP/MOP also invited Parties to submit to the secretariat, by 13 February 2006, their views on specific policies, programme priorities, eligibility criteria and possible arrangements for the management of the Adaptation Fund for consideration by the SBI at its twenty-fourth session. Submissions from Parties are contained in document FCCC/SBI/2006/MISC.7.

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\* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

**FCCC/SBI/2006/MISC.5**

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PAPER NO. 1: FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

6 February 2006

FAO considers the adaptation of communities, crops and production systems to climate change to be one of the challenges for the years to come and welcomes the establishment of the Adaptation Fund, whose purpose is to finance projects as highlighted in the National Adaptation Programmes of Action (NAPAs), especially in least developed countries (LDCs).

The modalities to be defined for this fund are, *inter alia*:

- ⇒ development of eligibility criteria for projects under the Adaptation Fund;
- ⇒ development of screening methodologies for project proposals.

FAO, with its considerable experience in agriculture, forestry, fisheries and rural development and its decentralized structure, could play an important role in the vetting and/or implementation of projects funded under this new financial mechanism.

Furthermore, FAO could strengthen the project implementation process itself by sharing its experience in developing methodologies and institutionalizing national capacity building.

Provided the necessary funds can be made available, FAO stands ready to offer its expertise and technical support for the planning and implementation of Adaptation Fund.

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

### **EXECUTIVE SUMMARY**

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

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

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

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

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

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

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

## **1. BACKGROUND: INTRODUCTION TO THE GEF**

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

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

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

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

### **1.1 Structure of the GEF**

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

- (a) an *Assembly* consisting of representatives of all Participants that meets once every three to four years to review the GEF's general policies and to evaluate its operation;
- (b) a *Council* consisting of 32 Members who represent constituency groupings of Participants formulated and distributed taking into account balanced and equitable representation of all Participants. There are 16 Members from developing countries, 14 Members from developed countries and 2 Members from countries with economies in transition. There are an equal number of Alternate Members with full power to act for an absent Member. Council Members are expected to reflect the views and positions of the countries in their constituency, and resources are provided to each Council Member to convene regular constituency meetings.

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

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

- (c) a *Secretariat* responsible for servicing and reporting to the Assembly and the Council;
- (d) three *Implementing Agencies*: UNDP, UNEP and the World Bank; and
- (e) a *Scientific and Technical Advisory Panel* that serves as an advisory body to the GEF.

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

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

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

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

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

1. For purposes of the financial mechanisms for the implementation of the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change, the GEF will function under the guidance of, and be accountable to, the Conference of the Parties (COPs). For purposes of financing activities in the focal area of ozone layer depletion, GEF operational policies will be consistent with those of the Montreal Protocol on Substances that Deplete the Ozone Layer and its amendments.
2. The GEF will provide new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits.
3. The GEF will ensure the cost-effectiveness of its activities to maximize global environmental benefits.
4. The GEF will fund projects that are country-driven and based on national priorities designed to support sustainable development, as identified within the context of national programs.
5. The GEF will maintain sufficient flexibility to respond to changing circumstances, including evolving guidance of the Conference of the Parties and experience gained from monitoring and evaluation activities.
6. GEF projects will provide for full disclosure of all non-confidential information.
7. GEF projects will provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people.
8. GEF projects will conform to the eligibility requirements set forth in paragraph 9 of the GEF Instrument.
9. In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources.
10. The GEF will ensure that its programs and projects are monitored and evaluated on a regular basis.

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

9. The UNFCCC held the first meeting of the Conference of Parties in March/April 1995. At that time, the COP provided initial guidance on eligibility criteria, program priorities, and policies for the financial mechanism, whose operation, on an interim basis, was entrusted to the GEF. The GEF requested additional guidance from the COP on the development of an operational strategy. In response to this specific request, the COP approved:

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

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

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

### **1.3 Trustee**

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

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

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

### **1.4 Evaluations of the GEF**

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

16. OPS2 (2001) concluded that GEF-supported projects have been able to produce significant results that address important global environmental programs. It also noted that the GEF is the only



multi-convention financing facility in existence, and that it is the major source of funding specifically supporting international environmental agreements. OPS2 concluded that the GEF had been responsive to the global environmental conventions.

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

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

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

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

### **2.1 Stage I Adaptation: Enabling Activities**

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

- (d) Regarding adaptation, the following policies, programme priorities and eligibility criteria should apply;
  - (i) Adaptation to the adverse effects of climate change, as defined by the Convention, will require short, medium and long term strategies which should be cost effective, take into account important socio-economic implications, and should be implemented on a stage-by-stage basis in

developing countries that are Parties to the Convention. In the short term, the following stage is envisaged:

- Stage I: Planning, which includes studies of possible impacts of climate change, to identify particularly vulnerable countries or regions and policy options for adaptation and appropriate capacity-building;
- (ii) In the medium and long term, the following stages are envisaged for the particularly vulnerable countries or regions identified in Stage I:
- Stage II: Measures, including further capacity-building, which may be taken to prepare for adaptation, as envisaged by Article 4.1 (e);
  - Stage III: Measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1 (b) and 4.4;
- (iii) Based on the outputs of the Stage I studies, as well as other relevant scientific and technical studies, such as those of the Intergovernmental Panel on Climate Change (IPCC), and any emerging evidence of the adverse effects of climate change, the Conference of the Parties may decide that it has become necessary to implement the measure and activities envisaged in Stages II and III, consistent with the relevant conclusions of the Committee and with the provisions of the Convention.

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

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

## **2.2 Stage II Adaptation: Planning Studies and Related Activities**

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

- 1) Decides that, in accordance with Articles 4.3, 4.5 and 11.1 of the Convention, the GEF should provide funding to developing country Parties to:
  - a. Implement adaptation response measures under Article 4.1 of the Convention for adaptation activities envisaged in decision 11/CP.1, paragraph 1(d)(ii) (Stage II activities) in particularly vulnerable countries and regions identified in Stage I activities, and especially in countries vulnerable to climate-related natural disasters, taking into account their preparatory adaptation planning frameworks in priority sectors, the

completion of Stage I activities, and in the context of their national communications;

*(Decision 2/CP.4 paragraph 1)*

23. In response to this guidance, the GEF sponsored a further round of adaptation projects, deepening the understanding of adaptation needs and opportunities. These projects (listed in Box 2), undertaken in countries that might be considered to be particularly vulnerable, were expected to pave the way for future implementation of adaptation policies and measures<sup>1</sup>.

**Box 2 : Selected Activities for Stage II Adaptation**

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

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

### **2.3 Beyond Stage II: Toward Implementation**

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

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

### 2.3.1 Strategic Pilot on Adaptation (SPA)

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

Establishing pilot or demonstration projects to show how adaptation planning and assessment can be practically translated into projects that will provide real benefits, and may be integrated into national policy and sustainable development planning, on the basis of information provided in the national communications from non-Annex I Parties and/or other relevant sources, and of the staged approach endorsed by the Conference of the Parties in its decision 11/CP.1. ”

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

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

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

Approved Projects

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

Pipeline Projects:

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

### 2.3.2 Special Climate Change Fund

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

2. ... a special climate change fund shall be established to finance activities, programmes and measures, relating to climate change, that are complementary to those funded by the resources allocated to the climate change focal area of Global Environment Facility and by bilateral and multilateral funding, in the following areas:
  - a. Adaptation, in accordance with paragraph 8 of decision 5/CP.7;
  - b. Transfer of technologies, in accordance with decision 4/CP.7;
  - c. Energy, transport, industry, agriculture, forestry and waste management;
  - d. Activities to assist developing country Parties referred to under Article 4, paragraph 8(h), in diversifying their economies, in accordance with decision 5/CP.7;
3. Decides further that Parties included in Annex II, and other Parties included in Annex I that are in a position to do so, shall be invited to contribute to the fund, which shall be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties;

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

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

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

#### **Box 4: Projects Under the SCCF**

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

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

Medium-Sized Project Approved under the SCCF:

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

### **2.3.3 The Least Developed Countries Fund**

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

- 6) Decides also that a least developed countries fund shall be established, which shall be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties, to support a work programme for the least developed countries. This work programme shall include, inter alia, national adaptation programmes of action in accordance with Section II, “Implementation of Article 4, paragraph 9, of the Convention”, of decision 5/CP.7;
- 7) Invites the entity referred to in paragraph 6 above to make the necessary arrangements for this purpose and report thereon to the Conference of the Parties at its eight session for appropriate action;
- 8) Decides to provide guidance to the entity referred to in paragraph 6 above on the modalities for operating this fund, including expedited access;

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

32. The GEF responded to this guidance by establishing the Least Developed Countries Fund to support the preparation of the NAPAs. A consultation with the LDC Experts Group (LEG) on the NAPA Guidelines was organized and held in Arusha, Tanzania, on February 28 and March 1, 2002. This consultation resulted in the development of “Operational Guidelines for the Expedited Funding for the Preparation of National Adaptation Programs of Action by Least Developed Countries” (GEF/C.19/Inf.7) which was approved by the GEF Council in May of 2002. With the collaboration of the Convention Secretariat, a workshop was held in Dhaka, Bangladesh in October 2002, to discuss the process of preparing NAPA’s with representatives of LDC countries. On the basis of this paper and these consultations, two meetings were held with donors, the first in

Stockholm in late 2002 and the next in Paris in late 2004. A total \$40.5m was raised for the LDC Fund, of which \$29.2m is still available for programming. To date, 46 LDCs have received funding for the preparation of NAPAs in keeping with the guidelines. At the time of this writing (February 2006) as many as one dozen LDC countries are in the process of finalizing their NAPA's.

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

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

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

- (a) a streamlined modality to accelerate the GEF project cycle;
- (b) an additional costs approach which seeks to quantify the costs imposed on a country by the impacts of climate change;
- (c) full-cost funding to be provided in those cases where it can be reasonably proven; and
- (d) no expectation of demonstrating global environmental benefits.

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

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

#### **2.3.4 The Adaptation Fund**

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

- 1) Decides that an adaptation fund shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Protocol, as well as activities identified in paragraph 8 of decision 5/CP.7;
- 2) Decides also that the adaptation fund shall be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding;



- 3) Decides further that Parties included in Annex I that intend to ratify the Kyoto Protocol are invited to provide funding, which will be additional to the share of proceeds on clean development mechanism project activities;
- 4) Decides also that the adaptation fund shall be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention, under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, with guidance to be provided by the Conference of the Parties in the period prior to entry into force of the Kyoto Protocol;
- 5) Invites the entity referred to in paragraph 4 above to make the necessary arrangements for this purpose;

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

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

### **3. THE GEF ROLE AS MANAGER OF THE ADAPTATION FUND**

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

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

*(GEF/C.19/6 para4)*

41. The Council also agreed that:

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

*(GEF/C.19/6 para 9)*

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

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

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

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

46. **Already managing three sources of adaptation funding, GEF is uniquely positioned to provide structural learning and administrative simplification for the Adaptation Fund;** Adaptation to climate change is a relatively new field of intervention. As a result, early experiences will have a critical role to play in shaping the nature of the field, and in achieving success of adaptation interventions in contributing to greater resilience and responsiveness to the challenges of global warming and away from increased rigidity that would result in even greater vulnerability. The GEF is already placed stands at the center of adaptation funding through its management of the SPA, the LDCF and the SCCF and is able to ensure consistency between them. The early experiences of GEF adaptation projects are being added to the GEF knowledge base. In addition,

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

the GEF has gathered important relevant experiences through its work in other focal areas: biodiversity, international waters, land degradation, and persistent organic pollutants. All of these areas have a role in contributing key lessons to adaptation efforts as natural ecosystem health appears to be a key to long-term ecosystem resiliency. The GEF is uniquely positioned to incorporate all of these lessons and experiences and to provide feedback from them to the particularly vulnerable parties at risk from the impacts of climate change. The work under the Adaptation Fund would benefit in quality from the lessons and experiences gleaned from these other sources of funding for adaptation and from work in other focal areas. As the entity managing the SPA, the SCCF, and the LDCF, the GEF is well-placed to simplify and assist Parties in directing their adaptation efforts and proposals to the correct funding sources. Having all of these proposals managed by the same network entity makes the re-direction from one fund to another a relatively simple matter—proposals have already been easily and readily redirected from the SPA to the SCCF for example.

47. **GEF's administrative structure provides a sound foundation for the Adaptation Fund:** The GEF Trust Fund has been managed by the World Bank's Trustee Office since 1991. It is independently audited, and public reports are made available on an annual basis. In recent years, the SCCF and the LDCF were established and operationalized by the GEF Secretariat, the Trustee, and the Implementing Agencies under the supervision of the GEF Council. Because the Trustee was able to use the pre-existing infrastructure put in place for managing the GEF Trust Fund, the costs for the establishment of these new funds has been minimal. Their administrative and operational costs—while kept completely separate from those of the GEF Trust Fund—have been extremely low. A similar low-cost structure can be expected for the establishment of the Adaptation Fund. In addition to working with donor funds like the LDCF and SCCF, the Adaptation Fund will be charged with monetizing or encashing the 2% of the certified emission reductions (CER's) of the CDM that are being placed into the share-of-proceeds account for that purpose. This presents an additional challenge to the operator of the Adaptation Fund. Preliminary study of the carbon market by the Trustee has revealed that the market for CER's is quite thin and volatile and will be made up entirely of options trading until early 2007, in all likelihood. Rather than settling upon an administratively convenient approach, the Trustee has proposed that the best interests of the Adaptation Fund will be served by adopting an encashment strategy that seeks to maximize the value of the funds in a transparent, low-risk manner. This will require the implementation of a long-term, systematic encashment strategy. As the World Bank has been auctioning off bonds to meet the costs of its own operations for over 50 years, the Trustee has greater hands-on experience with this type of exchange than any other institution in the multilateral environment.

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

by other international, regional, and national bodies, taking into account their comparative advantages in efficient and cost-effective project execution. The GEF's ability to respond from within its network, and when needed, to enlarge that network to meet the unmet needs of its participants is one of its greatest strengths.

PAPER NO. 3: THE WORLD BANK

The World Bank accepts the conclusions of the IPCC 2001 assessment that a significant degree of climate change is inevitable and that all peoples will be affected by its impacts. Climate change is seen as a significant threat to development and our efforts to reduce poverty. The Bank is committed to increasing the capacity of developing countries to adapt to ongoing climate change and to better manage climate risk for the poor.

The Adaptation Fund, along with the Special Climate Change Fund and the Least Developed Countries Fund, is an important mechanism in preparing developing countries for climate change. The Bank fully agrees that the Adaptation Fund should be country driven, separated from other funding sources and based on sound financial management and transparency.

The Bank believes that these principles can be best achieved through the management of the Adaptation Fund by the Global Environment Facility (GEF) as decided at the 7th Conference of the Parties and agreed to by the GEF Council. In its management the GEF should be under the guidance of, and accountable to, the Conference of the Parties serving as the meeting of Parties to the Kyoto Protocol as agreed at CoP/MoP1 in Montreal.

The Adaptation Fund is potentially a major resource for climate resilient development with a catalytic role in stimulating and guiding additional resources from the public and private sectors. Thus, it is important that the Adaptation Fund be managed by an independent agency but in a context where open and transparent interaction with the widest range of development agencies and international financial institutions is possible. The GEF and its Secretariat best fulfill this role. They offer independence that no existing agency offers and experience that would take many years to replicate if a new agency were to be created. We reiterate the importance of the guidance to GEF from the CoP/MoP and its accountability to them through its Council.

PAPER NO. 4: UNITED NATIONS DEVELOPMENT PROGRAMME

13 January 2006

We are delighted that the Adaptation Fund had become a reality with the entry into force of the Kyoto Protocol and that the subject of adaptation has been given a high degree of priority within the UNFCCC. Adaptation is also one of the highest priorities within UNDP's work on the environment as it is closely to its core work on sustainable development and poverty.

UNDP is acutely aware of the potential impacts climate change will have on socioeconomic development. We believe that an adaptation Fund is crucially important to support developing countries to reduce vulnerabilities to- and maximize opportunities from- climate change through adjustments in social and economic activities and investments in resilience-building policies and programmes. UNDP's climate change activities are focused on reducing the vulnerability of the poor to climate-related extreme events and providing a range of options for the protection, as well as generating funding for the protection of ecosystem services. In the last few years, UNDP has increased its portfolio significantly to respond to the growing demand from developing countries throughout the world.

With regard to your specific request on the management arrangements for the Adaptation Fund, UNDP is committed to support whatever institutional arrangements are decided by the Parties. We will work with the Parties and partners to ensure that the Adaptation Fund is operationalized in the most efficient and cost effective manner within a broad vision of sustainable development. We are also ready to work with countries on the ground to support them in the implementation of their adaptation programmes and projects to fully maximize local benefits.

As you know, UNDP has a network of Country Offices in over 140 countries and programmes in more than 160 countries - including the small islands developing states of the Pacific and Caribbean. Our proven track record in delivering close to \$4 billion last year alone, including our experience in managing several Trust Funds-which operate on a flexible basis with separate management and reporting arrangements-could be put to good use to support whatever management arrangements are chosen by the Parties. We are ready to work in partnership to make this one of the most important funds of the UNFCCC.

PAPER NO. 5: UNITED NATIONS ENVIRONMENT PROGRAMME

UNEP agrees that the challenges the GEF is facing and the importance of coordination within the GEF family are essential in addressing global environmental issues sustainably and in the context of the continuing evolution of the UNFCCC and Kyoto Protocol. Collective efforts from many stakeholders will be necessary to address what is a complex issue.

The GEF partnerships are unique and have produced significant results towards managing the global environment. UNEP is confident that this will continue in the future and that the challenges we are facing today will be instrumental in further improving our contribution to the global environment and better responding to developing countries needs.

UNEP is pleased to note that the GEF has made it a priority to respond to the challenge of adaptation and cannot understate the complexity of the issues we face. Adaptation to Climate Change is a critical priority for many of the developing countries especially the least developed and is not only an environment issue but one of development.

In working out the options for responding to the needs and concerns expressed by all Parties, it is UNEP's view that interagency and cooperation is imperative and that flexibility, inclusiveness and innovation are necessary priorities. The upcoming discussions in April should address the concerns of all Parties including the need for concrete actions to be taken urgently, as well as transparency and accountability. UNEP suggests that we take advantage of the planned meeting in Canada to discuss the Fund in more detail and look forward to this collaboration.

PAPER NO. 6: UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**Note on possible Arrangements for Management of the Adaptation Fund**

**Background**

UNIDO, as **the** UN specialized agency for industry, is mandated to assist developing countries towards reaching their targets for increased and competitive industrial development in a manner that is sustainable and that supports their economies, employment and the environment (the three 'Es'). The thematic priorities of the Organization target poverty reduction through productive activities, trade capacity building and energy and environment.

With that focus in mind and in line with its mandate, UNIDO has been *assisting the UNFCCC non-Annex I countries (NAIs) to develop relevant capacity under the Climate Convention and its Kyoto Protocol (especially the Clean Development Mechanism [CDM]) to 'enable' their implementation of activities and projects that will lead to reductions of GHGs in the industry and energy sectors.*

In addition, UNIDO has been assisting its Member States for close to forty years with a range of technical assistance and capacity building projects targeted towards industrial development goals, many of which are relevant to various aspects of the Climate Convention, for example in the fields of: technology transfer; energy efficiency in industry; renewable energy for rural off-grid areas; productive improvements in the agro-industry sector; small and medium enterprises; and in providing technical assistance and policy advice for the development of national industrial policies.

Parties to the UNFCCC have recognized that UNIDO is a major contributor to climate-relevant industrial and technology issues and the Organization is in a good position to assist NAI countries on both mitigation and adaptation.

**How can UNIDO assist? / Comparative advantage**

UNIDO has a unique mix of programme areas and capacity relevant to and required for support to the Climate Change agenda and the Kyoto Protocol. For the last eight years, technical assistance has been provided through country-driven programmes (Integrated Programmes/IPs or Country Service Frameworks/CSFs) that combine services relevant to the particular needs of our Member States. These services are 'clustered' around a theme of particular concern to the country such as '*Integrated Programme for Poverty Reduction and Competitiveness*', '*Economic Development through Poverty Alleviation*' and '*An Industrial Agenda for Poverty Relief and Transition to Sustainable Development*'. Such a programmatic and developmental approach is also useful when supporting adaptation activities, as there are multiple issues and stakeholders in need of being addressed.

Within two groups of environment-specific technical assistance (Montreal Protocol & Stockholm Convention on Persistent Organic Pollutants), UNIDO has also been helping its Member States to identify their main problem areas and to develop national programmes to address priority concerns (National Phase-Out Plans and National Implementation Plans, respectively). Subsequently, these countries have been assisted in implementing industrial technology-specific interventions that mitigate, remove or destroy chemical substances controlled by said relevant Multilateral Environmental Agreements (MEAs).



In addition to technical assistance, UNIDO has always maintained a global forum function ranging from general industry-related studies and publications to issue- / technology-specific seminars and conferences, such as e.g. on Industrial Cogeneration and Climate Change, Energy Efficiency and Carbon Finance, etc. UNIDO could utilize these services to undertake technical studies (for example to better understand industry vulnerability to Climate Change or the linkages between productivity and adaptation) and to convene experts' forums both of which would lead in to targeted technical assistance adaptation projects within an Integrated Programme framework.

UNIDO's technical assistance activities are largely financed through global funds (GEF, Montreal Protocol) and donor country or private sector special purpose voluntary contributions. As at 31 December 2004, the value of UNIDO's ongoing programmes and projects totalled approximately US\$ 392.6 million with implementation reaching US\$ 98.8 million that year. In the area of multilateral environmental agreements, the value of ongoing projects and programmes totalled approximately US\$ 64 million (Montreal Protocol: US\$ 56.87 million; Stockholm Convention and Kyoto Protocol: US\$ 7.15 million). In particular, the IPs/CSFs are structured to allow multi-source funds' mobilization.

Behind the above figures lies the capacity of the Organization to develop sound and attractive technical programmes and projects with and for our developing country Member States. This is supported by in-house services (e.g. financial, procurement, experts' roster). These services, together with an internal funds mobilization mechanism and project development / implementation capacity, make UNIDO a very efficient and effective organization for delivering state-of the-art technical assistance focused on the industrial sector.

### **What UNIDO can do in the context of Adaptation**

UNIDO considers that it has all the capabilities and the expertise to gain direct access for development and submission of project proposals under the Adaptation Fund (AF). This would improve transparency and accountability of operational activities and enhance the capacity of the Fund to address evolving strategic operational needs, including in new and emerging areas, and to respond to country- and Convention-driven priorities. Also, it would expand the knowledge base, approaches and perspectives from which the AF can draw for innovative projects and would leverage additional financial and technical resources and co-financing. The main UNIDO services and activities potentially relevant to adaptation are detailed in what follows, focusing on scope, experience (since adaptation-relevant activities are already undertaken), potential and proposals for adaptation-specific interventions:

#### **1. Industrial Governance and Statistics**

This service module assists developing countries and economies in transition to monitor, benchmark and analyse their industrial performance and capabilities, and on that basis to formulate, implement and monitor strategies, policies and programmes to improve the contribution of industry to productivity growth and the achievement of the UN Millennium Development Goals (MDGs).

In general, UNIDO could assist developing countries, especially Least Developed Countries (LDCs) and Small Island Developing States (SIDS) in mainstreaming adaptation into their national development policies and plans (PRSPs, MDGs, UNDAF, etc.).

Main possible contributions would be:

**A.** Targeted research to better understand the linkages between industrial productivity and adaptation, providing factual data and information that would identify precise areas of support by UNIDO, *inter alia* through the following analyses

- a) *Vulnerability and adaptive capacity* for the industrial sector, including examination of potential for industrial diversification
- b) *Integrated climate change risk & adaptation assessment* in the broader development context and to prepare adaptation strategies (NAPAs) with specific relevance to sustainable industrial development as a component;
- c) *Sectoral planning* for anticipated future impacts and development of adaptation options for industry (e.g. planning for placement of industrial infrastructure, diversification policies, access to energy and water resources).

**B.** Utilization of an existing methodology (based upon existing scoreboard and benchmarking activities of UNIDO) for assessing the industrial development potential of a country after factoring in the cost of adaptation.

**C.** Providing industrial policy advice at macro and micro levels that would include adaptation considerations, e.g. with respect to: industrial diversification; access to energy; input of different technologies; competitive performance; providing theoretical underpinnings for discussions on complementarities and trade-offs between economic growth and environmental protection.

## **2. Investment and Technology Promotion**

This service module considers that economic growth, required for eradication of poverty and the achievement of the other associated MDGs, depends on capital accumulation (investment) and technical change going hand in hand. Investment in plant and machinery, with its impulse of new ideas and technologies, contributes to productivity growth, as do technological progress, upgrading and diffusion. Foreign Direct Investment (FDI) in particular is an important driver of industrial performance, as it is expected to directly improve industrial productivity growth by infusing new capital, technologies and managerial know-how, and by improving the average skills and efficiency levels of industry.

To ensure that their economic development proceeds in a sustainable manner, developing countries particularly vulnerable to the adverse effects of climate change are the most in need of appropriate technology transfer and encouragement of essential investments for implementing adaptation activities.

This UNIDO service can provide those countries, at government or private sector levels, with a range of technical assistance and advisory services to meet the unique adaptation needs of each, spreading from policy formulation and project planning to implementation:

Transfer of adaptation technologies:

- Identification of adaptation technology needs and available solutions;
- Evaluation and selection of appropriate technologies;
- Negotiation and conclusion of technology transfer agreements.

#### Investment Promotion:

- Creation of suitable investment environment;
- Formulation of investment projects and their financial analysis;
- Promotion of projects to attract investors;
- Infrastructure development under special financing schemes such as Build-Operate-Transfer (BOT) or Private Finance Initiative (PFI).

In addition, this service operates networks of International Technology Centres (16 in 10 countries), Investment and Technology Promotion Offices and Units (20 in 17 countries), and national Investment Promotion Agencies (IPAs).

### **3. Private Sector Development**

The private sector is the main driving force of industrial development in virtually all countries and - through changing patterns of international production, investment and trade - shapes the economic globalisation process. A vibrant private sector is an essential prerequisite for enhancing productivity, transferring and diffusing new industrial technologies, maintaining competitiveness and contributing to entrepreneurship development and ultimately poverty reduction, as called for in MDG 1.

Climate change is expected to entrench development disparities and to threaten livelihood resources, particularly in poor countries and communities, e.g. in LDCs or SIDS. Helping these communities to build more resilient and secure livelihoods to confront the impacts of climate change is an important part of most NAPAs, and requires assistance for creating conducive environment, human resources and partnerships for sustainable livelihood and diversification strategies.

This Service module comprises three relevant components:

- A. The Rural and Women Entrepreneurship Programme focuses on entrepreneurial human resource development, strengthening of support institutions and service providers, and improvement of regulatory environment to encourage and enable entrepreneurial initiatives of women, youth, and rural and disadvantaged population groups. Special emphasis is given to LDCs and countries and regions under socio-economic recovery and reconstruction process. This component can thus contribute to strengthen broad-based entrepreneurship in the concerned countries or areas that can develop and adjust its entrepreneurial activities in line with market needs and in reaction to external shocks and stress factors like the ones deriving from climate change impacts.
- B. The Programme on Business Environment and Institutional Support provides services to build national capacities towards the creation and continuous upgrading of a business environment that would allow private sector to make a greater contribution to growth, employment and income generation. Support is also provided to creating and/or strengthening the most appropriate institutional infrastructure for extending special business development services to SMEs within a market development perspective, including for business information and ICT support services. As such, it could provide its services to support the mainstreaming of adaptation in the formulation of industrial and regional development policies and support systems, and to link climate change related information to business information systems.

- C. The Business Partnership Programme has experience in promoting public-private multi-sector partnerships to address issues that go often beyond the range of individual actors, consolidating resources (technical expertise, finance, management know-how, etc.) from civil society and development partners. Based on the principles of the UN Global Compact and on UNIDO's partnership programme methodology, it pays special attention to capacity building for Corporate Social Responsibility (CSR), in order to promote the CSR agenda in developing countries in a comprehensive manner at the policy, institutional and company level. CSR is an interesting and promising approach for many environmental fields, including adaptation.

#### **4. Agro-Industries**

These UNIDO services are directed at all principal stakeholders in the development of the agro-industrial sector, including public-sector decision-makers, support institutions and agro-related firms at all levels of the value chain, and are usually provided in close conjunction with related services offered by other modules. This service module intends to strengthen forward and backward agro-industrial linkages in order to raise productivity and increase value added and employment. It has a strong potential outreach to poor and marginalized rural population groups whose long-term global competitiveness is severely threatened by the effects of climate change, and is closely in line with several of the MDGs, in particular the eradication of extreme poverty and hunger. It particularly targets LDCs, where agro-commodities are at the centre of industrial development, and which are hence more exposed to lose their already marginal resource base due to the adverse effects of climate change ranging from extreme drought and desertification to repetitious flooding.

The services offered can make a vital contribution to development in non-Annex I, especially LDCs with a predominantly agricultural and rural base, which are amongst the most vulnerable to climate change. These services in the sub-sectors of food, textile, leather, wood and agro-machinery are directed to main stakeholders in the development of the agro-industrial sector including public sector decision makers, support institutions and agro-related firms.

UNIDO is currently planning and involved in various projects and programmes related to the effects of climate change, e.g. participatory control of desertification and poverty reduction in the arid and semi arid high plateaus of Eastern Morocco, phase out of Methyl Bromide used for soil fumigation in tomato production, or sustainable bamboo resource management to combat land degradation. In addition, the following actions relevant to the adaptation field could be / are being undertaken by UNIDO:

- Supply chain management for these resources in order to ensure a sufficient supply for the industries. This includes the introduction of new technology and equipment as well as agronomic practices;
- New crop varieties requiring the adaptation of agro-processing equipment. This includes pest control technology and practices;
- Particularly in areas threatened by flooding, storage and conservation technology need to be adapted to limit post harvest and processing losses. This has to go hand in hand with appropriate food safety standards to contribute to the overall health situation;
- Natural disasters like storms and floods lead not only to the destruction of private shelter but also to the destruction of industrial companies ranging from micro-enterprises to large industrial complexes resulting in the loss of much needed employment. UNIDO has longstanding experience in the rehabilitation of companies as well as in the planning and implementation of industrial relocation programmes;

- Promotion of agro-forestry industries, such as bamboo cultivation and its economic utilization for the production of durable goods plays an important role in soil erosion control and other forms of land degradation exacerbated by flooding. In this context, environmental issues can very often be directly linked with economic benefits. As an example, Madagascar is presently experiencing a shortfall in silk production, so plantations of mulberry bushes would address poverty alleviation through providing gainful employment while at the same time reducing soil erosion;
- Optimisation of agro-industrial processes and promotion of biomass, solar energy and other alternative energy forms for industrial agro-processing, in order to limit the impact on agro-industries of all sizes of increased energy costs, in many cases attributable to climate change;
- Improved utilization of natural resources and minimization of processing waste using cleaner production principles, practices and technologies throughout the agro value chains. Holistic utilization concepts are developed, for example in the wood/bamboo processing industry where production waste produces energy in the form of biomass. Other examples are in the textile sector, where UNIDO provides assistance and advice on modern technologies to minimize and treat waste and optimise production by saving dyes, energy, water and other natural resources;
- Improved harvest and post harvesting technology, minimizing losses and contributing to the equalization of lower per hectare yields due to climate change. The introduction of irrigation and water harvesting technology is extremely important in areas threatened by drought and desertification;
- Introduction of Agro-Industrial Productivity and Technology Centres to support rural economic activities by providing skills and equipment for non-farm income generation, easing the dependence of the population on subsistence farming. Particularly in sub Saharan Africa farm plots are often too small to allow for sufficient income and are further threatened by desertification and erosion.

## **5. Environmental Management**

This service responds mainly to environmental issues like the ones addressed through MDG 7 (Ensure Environmental Sustainability) and MDG 9 (Integration of sustainable development principles into country policies and programmes and reversion of environmental resource losses), as well as through the agreements of WSSD of 2002. In the adaptation context, those UNIDO activities referring to coastal, marine and freshwater ecosystems in connection with industries have a special relevance. In particular, there is a need to protect developing countries' water resources from the discharges of industrial effluents and from excessive water consumption by industries. The core UNIDO objective of productivity enhancement links also very closely to these particular targets and provides the rationale for this service module.

Main activities from this service area that are being / could be addressed in the context of adaptation are:

- Industrial integrated water / wastewater management, especially in connection with discharges from agro-processing industries;
- Desalinisation;
- Mitigation of industrial water pollution for poor communities, helping to boost rural welfare and income by facilitating safe rural freshwater supply;
- Integrated Coastal Zone Management (ICZM). Climate change has usually a negative impact for the sustainability of coastal area resources. UNIDO has incorporated adaptation issues to several regional programmes on capacity building for ICZM; and

- Adoption of the Ecosystem Approach. In response to the Johannesburg resolutions and its implementation plan, UNIDO, in cooperation with the GEF, is actively helping countries to adopt the ecosystem approach in the preparedness and planning for the sustainability of their water bodies and resources.

## 6. Sustainable Energy and Climate Change

**A. Energy:** Industrial energy is essential to economic and social development and to improving the quality of life. Indeed, the availability of affordable and sustainable energy to all people is critical to the achievement of the MDGs; in particular, energy is a prerequisite for poverty alleviation, (MDG 1), since it enables income-generating activities and the establishment of micro-enterprises. Similarly, energy is a prerequisite to alleviate hunger and meet most of the other social and welfare-related MDGs by providing the light and power that the achievement of these goals critically depends on.

Increased frequency and a wider range of extreme temperature events are expected to lead to increased demand for energy for the production of temperature-sensitive industrial products, for space cooling and de-humidification (examples can be found in the foodstuffs, agricultural processing, pharmaceuticals, textiles and semiconductors sub-sectors).

Therefore, proactive action is required to assist vulnerable industrial sub-sectors to improve efficiency of the electric motor and steam systems that provide these energy services and UNIDO could assist by building capacity in energy systems optimisation and providing policy advice by establishing corporate energy management standards. An added advantage of this approach is that these are 'no regrets' measures, increasingly cost effective as energy prices rise due to both increasing energy demand and climate change-induced energy shortages.

In addition, UNIDO's renewable energy for productive / community use programme would be of assistance in addressing adaptation issues, especially for providing decentralized energy for irrigation systems and pumps. This programme also promotes income generation / poverty alleviation by providing energy in off-grid areas and this, in turn, helps towards achieving other MDGs and collateral benefits, such as e.g. the substitution of energy sources (e.g. renewable energy instead of fuel wood) helping to reduce deforestation and desertification or to adapt to less availability of hydropower.

**B. Climate Change:** UNIDO's work supporting the implementation of the Kyoto mechanisms has until now focused on:

- Developing methodological guidelines for the CDM and JI to support the effective implementation of both mechanisms in general and to assist developing countries in their implementation. Also, UNIDO has published CDM guides based on project results in Brazil and South Africa;
- Strengthening capacity in developing countries for the formulation, development and implementation of CDM and JI projects; and
- Organizing, contributing to and participating in relevant international climate meetings. At these fora, UNIDO presents its energy and climate programmes and strengthens international cooperation on Climate Change.

UNIDO's Climate Change Unit takes the lead within the Organization in providing a programmatic approach to the challenges posed under the adaptation focal area, drawing upon the expertise and strengths of other UNIDO Branches and Units as indicated in the previous sections, providing an optimal assistance framework to implement industrial components of National Action Plans for Adaptation (NAPAs) or to assist vulnerable countries, regions and sectors in examining their situation and to develop specific programmes of adaptation for their industrial and productive sub-sectors.

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