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Item 6 (a) of the provisional agenda

Financial mechanism (Kyoto Protocol)

Adaptation Fund

Views on specific policies, programme priorities and eligibility criteria and possible arrangements for the management of the Adaptation Fund

Submissions from Parties

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 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 Subsidiary Body for Implementation (SBI) at its twenty-fourth session.
2. The secretariat has received 12 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 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 SBI at its twenty-fourth session. Submissions from intergovernmental organizations are contained in document FCCC/SBI/2006/MISC.5.

* 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.

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* This submission is supported by Bulgaria, Romania, Croatia, Bosnia and Herzegovina, The former Yugoslav Republic of Macedonia, and Serbia and Montenegro.

PAPER NO. 1: AUSTRIA ON BEHALF OF THE EUROPEAN COMMUNITY
AND ITS MEMBER STATES

**SUBMISSION BY AUSTRIA ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS
MEMBER STATES**

This submission is supported by Bulgaria, Romania, Croatia, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia and Serbia and Montenegro

Vienna, 15 February 2006

**Subject: Financial mechanism (Kyoto Protocol)
Views from Parties and relevant international organizations on possible
arrangements for the management of the Adaptation Fund**

The EU's primary objective is to operationalize the Adaptation Fund to achieve the greatest possible effect in supporting developing countries to adapt to the adverse effects of climate change. The EU acknowledges the special feature of the Adaptation Fund (AF) as a fund financed by a share of proceeds from the Clean Development Mechanism and other sources. The EU welcomes the opportunity to share its views on this new instrument, in particular as there is a possibility that the AF could serve as a good model for other innovative funding instruments. [fs1]To this end we need to agree the governance, scope and eligibility criteria for the Fund, taking into account its special nature of funding, and the need to attract additional financing.

The EU agrees with statements made by Parties at the last COPs and the first COP/MOP, which stressed that timely availability of financial resources and relevant methodologies and technologies is of critical importance for adaptation to climate change. Therefore, the operationalization of the Adaptation Fund should be done with care. In this regard, the EU welcomes the preliminary steps taken by the GEF to propose options for the operationalization of the Adaptation Fund. The EU notes that the GEF is the operating entity of the financial mechanism of the Convention with much experience in programming and financing adaptation.

Arrangements for Scope and Management of the AF

In considering the arrangements for managing the Adaptation Fund, aspects of governance, scope, eligibility, and operating principles of the Fund need to be clarified.

(a) Governing body

Decision 10/CP.7 states 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. The financial mechanism for the AF shall also have an equitable and balanced representation of all Parties within a transparent system of governance.

The EU is of the opinion that the institution that operates the Fund should, in addition,

1. be transparent and accountable,
2. have an independent monitoring and evaluation function,
3. be subject to independent financial audits,
4. have a balanced representation from developed and developing countries,
5. have knowledge and experience of adaptation activities,

6. be consistent with and have synergies with activities in related climate change areas,
7. have effective and expeditious management, and
8. have low transaction costs.

(b) Scope and eligibility

In accordance with decisions taken, the Adaptation Fund should support concrete activities to facilitate adaptation. Developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change are eligible for AF funding to meet the costs of adapting to climate change. The EU recognizes that DCs, including LDCs and SIDS are particularly vulnerable to the adverse effects of climate change. The selection of adaptation projects should be based on national priorities, to avoid one-off projects with limited impact and to facilitate the identification of projects with multiple benefits that may also serve as good examples for adaptation measures in other countries.

Flexible modalities should be developed to ensure adequate geographical representation in the access to resources given the level of funds available.

(c) Operating principles and funding sources

Considering the financing needs for adaptation, the Adaptation Fund should be designed to maximize its means of funding from other sources. In order to make the AF attractive to financing from all sources, including innovative sources and private contributions at the national and local level, it is necessary to ensure the highest standards of professionalism.

The EU suggests that the following principles apply to the implementation of the Adaptation Fund:

1. be country-driven and in conformity with the national strategies and priorities for sustainable development of the Parties concerned,
2. address the specific vulnerabilities identified by developing country Parties in their national communications (and/or NAPAs and/or other development policy documents),
3. serve as a catalyst to leverage additional financing from all sources,
4. support a learning-by-doing approach,
5. be implemented in a cost-effective manner, and
6. draw on sliding scale to simplify calculation of fully funded additional costs of adaptation to climate change.

The EU is interested to continue the discussion on how to operationalise the Adaptation Fund, keeping in mind the need for highest standards of professionalism given the novel feature of the Fund. The EU believes that fulfilling the criteria mentioned above should be the basis for further deliberations of the SBI and the COP/MOP.

PAPER NO. 2: CANADA

Submission by Canada

Views on the Operation and Management of the Adaptation Fund

As called for by Decision-/CMP.1 (Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund) Canada is pleased to offer its views on the operation and management of the Adaptation Fund. We look forward to continuing our discussion on these issues with Parties at the upcoming subsidiary body meetings in Bonn.

Arrangements for the Management of the Adaptation Fund

In our interventions at SBI 23, our delegation noted a number of principles and criteria that should guide the operation of the Adaptation Fund. We stated that the institution that manages the Fund should be transparent and accountable and should have an independent monitoring and evaluation function. Given that this will be the first fund based on both a share of the proceeds of the clean development mechanism (CDM) and donor contributions, we noted that the institution managing the fund should be subject to independent financial audits and meet minimum international fiduciary standards. Another important principle that we raised was that the institution managing the fund should have a governing body that has balanced representation from developed and developing countries.

In Canada's view, the GEF best exemplifies these principles and is the best placed institution to manage the Adaptation Fund. The GEF offers many advantages to Parties. With three implementing agencies and seven executing agencies, the GEF offers developing countries a broad range of partners to work with, that span the range of adaptation needs. The GEF is also a transparent, accountable institution with a proven track record in achieving significant positive environmental benefits among all of its focal areas.

Keeping the Adaptation Fund under GEF management has the additional advantage of keeping the three voluntary climate change funds under the same institution, which will help ensure that each fund has its own niche. This approach will also reduce the potential for duplication and will ensure a more efficient and effective use of resources.

As with any institution, the GEF must continue to evolve its policies and practices to remain responsive to the needs of its partners. With adaptation under the LDC Fund and the Special Climate Change Fund (SCCF), the GEF did make significant adjustments to its policies to meet the needs of developing countries. Canada is willing to explore options for making the GEF's processes and procedures more streamlined for the Adaptation Fund, as has been done for the LDC Fund and the SCCF. For example, the concept of incremental cost should not apply to activities under the Fund, and the co-financing requirements should be reviewed, and possibly adjusted, to ensure they are consistent with the needs of developing countries. Consideration should also be given to the types of projects and their funding ceilings that are needed for the Adaptation Fund.

Canada also believes that to successfully manage the Adaptation Fund, the GEF needs to be more responsive to the needs and views of developing countries. There are a range of options that can be considered to do this, such as calling on the GEF Secretariat to hold regular consultations with developing countries on the operation of the Fund outside of the COP/MOP and GEF Council setting. This could be done through an annual consultation or regional consultations.

Policies, program priorities and eligibility criteria for the Adaptation Fund

As we noted in our interventions at SBI 23, we believe that the Fund should serve as a catalyst to leverage additional resources, in addition to CDM CERs, from bilateral and other multilateral sources. The Fund should also support activities that are country-driven, cost-effective, and integrated into national sustainable development and poverty reduction strategies.

The program priorities of the Adaptation Fund should be distinct from those of the adaptation program of the SCCF. The particular niche for the Adaptation Fund should be clearly defined and demonstrate an added value beyond the SCCF. Canada can support adaptation priorities identified in existing decisions taken by the Conference of the Parties such as the Buenos Aires Program of Work on Adaptation and Response Measures (1/CP.10). The Adaptation Fund should focus on concrete adaptation activities, which would complement the existing assessment, planning, and capacity building activities, supported by other sources of funding.

On issues related to the CERs from CDM project activities and their monetization, it is Canada's view that any approach adopted should optimize the financial resources available to support adaptation activities, minimize transaction costs, and the administration should be practical, simple and transparent. We are open to discussing different options for achieving this.

Recognizing that the Adaptation Fund is to be financed both through a share of proceeds from the CDM and donor contributions, as per Decision 10/CP.7, Canada believes that the Trustee operating the Fund should establish one account or trust fund to manage Adaptation Fund resources. Separate accounts should not be created based on the source of funds as this could double administrative costs and would be inconsistent with the purpose of the Fund.

In terms of eligibility criteria, Canada believes that only those developing countries and Countries with Economies in Transition that are Parties to the Kyoto Protocol should be eligible for funding under the Adaptation Fund.

PAPER NO. 3: EGYPT

The Adaptation Fund
Submission by Egypt

Introduction

1. At the first meeting of the Parties to Kyoto Protocol (December 2005 - Montreal), it was decided that the Secretariat will compile the views of the Parties on how to manage and administer the Adaptation Fund which was established under the decision 10/CP.7 to finance Adaptation Activities in accordance with Paragraph 8 of decision 5/CP.7 in Developing Countries, especially those classified under Article 4.8 and 4.9 of the UN Framework Convention on Climate Change.

2. In this context, Egypt is highly concerned about the Adverse Effects of Climate Change, taking into consideration its low lying lands in the Nile Delta, threatened by flooding and inundation, and its long coastlines exposed to erosion due to sea level rise, in addition to problems of agriculture, desertification and drought exacerbated through Climate Change.

Specific Policies, Program Priorities and Eligibility Criteria

1. Egypt confirms that discussions on the Adaptation Fund should give priority to determining guidelines for equitable allocation of the Fund's resources among Developing Countries. In so doing, priority should be given to the Most Vulnerable Countries which already suffer from Climate Change as well as those with projected higher risks in the near future as in the case of countries with low lying coastal areas.

2. In the same context, Egypt believes that the priority in using the Adaptation Fund Money should extend to members of the Group of Developing Country Parties which do not already have a specific Fund of their own. It should finance urgent activities which are not covered by the Special Climate Change Fund such as research and technology transfer in areas of land management, fragile ecosystems, coastal zone management, agriculture, human health and disease control (including developing vaccines, drugs and antiviral remedies associated with climate change impacts on health), and also activities of Capacity Building in the areas of preparedness and management of disasters relating to Climate Change, in particular desertification, drought (including supporting rain enhancement and water harvesting activities) and floods.

Arrangements for the Management of the Adaptation Fund.

1. Bearing in mind that the resources of the Adaptation Fund are coming mainly from the share of proceeds on the CDM project activities, and that these resources will be allocated to adaptation activities in Developing Countries guided by a country-driven approach, Egypt considers that the representation of Developing Countries should be dominant in the decision making structure of any entity entrusted with the operation of the Adaptation Fund, and that this entity should be bound strictly by the guidance of the COP/MOP.

2. Egypt also stresses that the policies and system of work of this entity should be completely independent from the management, procedural arrangements and decision-making process of existing funds under the UNFCCC or the KP. In this regard Egypt deems it useful - in the interest of reaching the most effective arrangements to operationalize the fund - that the secretariat arranges for presentations from different experienced entities such as GEF, UNDP or other relevant entities in other organizations such as the Ozone Multilateral Fund.

PAPER NO. 4: INDONESIA

Initial Guidance to an Entity Entrusted with the Operation of Financial Mechanism of the Convention,

for the Operation of the Adaptation Fund

Indonesia Submission on Adaptation Fund related to FCCC/SBI/2005L.32

Policies, Program Priorities, Eligibility Criteria and

Arrangement for the Management of the Adaptation Fund

Overview:

Indonesia attaches a great importance to the issue of adaptation. Although the issue of adaptation to climate change has come to the attention of international community, little progress in international negotiations can be expected without taking into account the concerns of most of the developing countries, which relate in large part to funding and mechanisms for addressing adaptation to the impacts of climate change.

It is the view of Indonesia that many developing countries lack the physical, financial, technical and technological capacity to cope with the adverse impacts of climate change. The real challenge of adaptation activities will be the development of secure, adequate and predictable funding stream for priority adaptation needs, as well as equitable frameworks for access to this funding. Funding for adaptation should be linked to responsibility for the impacts of climate change, to operationalise the polluter pays principle.

The Adaptation Fund established under the Kyoto Protocol is to support 'concrete adaptation projects and programmes in developing countries that are Parties to the Protocol'. This Fund is to be financed from share of proceeds on clean development mechanism project activities. Against this backdrop, Indonesia is of the view that the operationalization of the Adaptation Fund is imperative in order to assist the parties, in particular developing countries, to cope with domestic development process to anticipate and moreover adapt the high variability of climate and climate change to domestic situation. Even though all parties have right to contribute and access to the design and process of adaptation fund, the priorities shall be given to the developing countries to carry out and guide adaptation fund process and assessment in accordance with domestic needs and situation. In this respect, we would like to recall the *common but differentiated responsibilities* principles in the application of article 12 point 8 of the Protocol that provide sound basis for each party to take actions.

In accordance with the decision of the First Meeting of Parties to the Kyoto Protocol in Montreal 2005, parties are invited to submit their views with regard to the initial guidance to an entity entrusted with the operation of financial mechanism of the Convention, for the operation of the Adaptation Fund. In this context, Indonesia's views will consist of:

1. Acceleration of the implementation of adaptation fund, including some possible policy, program priority and eligibility criteria to be applied for the adaptation project activities;
2. Possible management arrangement of the adaptation fund

Policies, Program Priorities, Eligibility Criteria:

In a context of specific policies to be applied for the Adaptation Fund, we support the decision 1/CMP.1 (FCCC/SBI/2005/L.32) which states that the Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes. We believe the reason of this statement is to emphasize on the importance of actions on the field, such as physical construction activities, to support the implementation of the adaptation activities. The past experience of accessing the global funding for construction activities would be one of many developing countries major concern as most of the fund allocated from the global trust fund, such as GEF, has fallen mostly to the technical assistance category.

Moreover, we consider that the technical assistance activities mentioned in Decision 1/CP 10 paragraph 5 b (Vulnerability and Adaptation) should also be supported to allow the developing countries to increase their capacity. The activities such as pilot and demo projects, technical trainings, scientific and technological knowledge, institutional support, negotiating capacity and public awareness are pivotal to achieve an effective and efficient concrete adaptation projects. Having said that, to clarify such issues, we would like to propose as follows:

1. Parties shall agree upon proportion of technical assistance activities in the adaptation fund. It is our view that the proportion of concrete projects would receive bigger allocation than the technical assistance. As an initial step to help start the discussion, we propose to have maximum of 15% of fund allocated in the Adaptation Fund would be allocated to technical activities, while the rest of the fund would go to physical project activities;
2. There is an urgency to improve the capacity of developing countries to combat adverse effects of climate change. It is also important to emphasize the role of precautionary principle in anticipation and mitigation of the adverse effects of climate change by implementing concrete adaptation projects. Therefore it is important to set up a timeframe and in this regard three years first period before 2012 to implement and prepare the readiness of the developing countries could be an option. Funding allocations for these activities could be complementarily of SCCF and LDCF allocations.

On the specific programmes, we propose to allocate the adaptation fund for activities as follows:

1. Certain Climate-Sensitive Economic Sectors namely: Agriculture, Forestry, Marine and Coastal, and Health;
2. Disaster Risk Reduction such infrastructure projects to anticipate and increase the ability of vulnerable communities and the poor to prepare for and recover from the impact of climate changes;
3. Integration of adaptation into policy process, which require development of Tools, Methods, Modeling for local level and Technology for Adaptation;
4. Capacity building is needed to sensitise policy-makers to the impacts their desion making may have on adaptive capacity;
5. Increase public awareness of both potential impacts of climate change and possible and possible adaptation options and strategies, to enable decision making at individual and community level.

A lesson-learnt approach based on country driven as stated in decision 1/CMP.1 (FCCC/SBI/2005/L.32) will provide a sound basis to the principles of the adaptation activities. Moreover, it is essential for developing countries to ensure that adaptation activities are in line with national policy and strategy. Therefore we suggest that the adaptation activities should be an integral part of sustainable and national development plan of each developing country.

On the arrangement of eligibility criteria for country to receive funding from the adaptation fund, we would like to support the draft decision proposed by Jamaica on behalf of the Group of 77 and China (FCCC/SBI/2005/CRP.1) that priority should be given to highly vulnerable countries, least developed countries, low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid liable to floods, drought and desertification and developing countries with fragile mountain ecosystems. More over, we also suggest considering other indicators namely: *GDP per capita, number of people living in highly vulnerable area, and number of people below poverty line*. We expect that those indicators can be added as eligibility criteria to ease the process of adaptation fund allocation.

Possible Arrangements for Management of the Adaptation Fund

During the Montreal meeting, the issue of management of the Fund was deliberated intensively which resulted in the decision 2 of FCCC/SBI/2005/L.32 stating that the Adaptation Fund shall function under the guidance of, and be accountable to, the Conference of the Parties serving as the

meeting of the Parties to the Kyoto Protocol. Indonesia welcomed this decision since it provides the mandate to all parties to Kyoto Protocol in monitoring the management of the Adaptation Fund in a transparent manner.

With regards to detail arrangements of the Adaptation fund management, Indonesia believes that the discussion on the criteria to apply the fund and its disbursement should take place prior to decision on which institution would be selected as the entity entrusted on the financing mechanism for the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. This is due to the fact that previous experiences have shown many developing and least developing countries have difficulty to tap global funding resource due to complicated requirement and in-transparent process. Therefore, it is important that such situation would not happen and the need to underline the principles in guiding the operationalisation of the Adaptation fund such as sound financial management, transparency and Separation from other funding sources.

Having mentioned that, it is Indonesia's preference to have flexible modalities which will ensure a balanced access to resources given the level of funds available. Moreover, more relax term and conditions have to be applied to funding application and disbursement procedure. Disbursements should be made in the most expeditious way, without onerous operational policies on incremental costs that impose considerable administrative and financial costs on the developing countries.

On the basis of easing the process of application and disbursement of the Adaptation Fund, Indonesia is of the view that, among others, GEF could be an entity entrusted of Financing mechanism for the Protocol. Other mode of operations could be to try to emulate the mechanism under the Montreal Protocol. Other option is also worth exploring in which a body could be established under the Executive Board and/or under guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. This new body will have role to manage the fund and facilitate all parties in arranging the Adaptation Fund.

Jakarta, February 2006

PAPER NO. 5: JAPAN

Japan's submission on Adaptation Fund

13 February 2006

Decision -/CMP.1 on "Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund" invites Parties to submit to the secretariat, by 13 February 2006, their views on specific policies, programme priorities and eligibility criteria for consideration by the SBI 24 (para 5), and further invites Parties and relevant international organizations to submit their views on possible arrangements for the management of the Adaptation Fund for consideration by SBI 24 (para 6). Japan would like to make a submission specifically for the latter part of the decision.

Japan's view on possible arrangements for the management of the Adaptation Fund

Japan recalls the decision adopted at COP 7 (10/CP.7) especially the two paragraphs that are to be the core of the discussion on this topic, which says;

"Decides that the adaptation fund shall be financed from the share of proceeds of the clean development mechanism project activities and other sources of funding (para 2)",

"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 COP/MOP (para4)."

These two paragraphs stand on an idea that the Adaptation Fund is an innovative financial mechanism that is financed from various sources including public and private sources, but that at the same time is a funding mechanism established by the Kyoto Protocol, a multilateral agreement ratified by more than 150 countries. Thus the arrangements for the management of the Adaptation Fund should ensure the following elements:

1. 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 COP/MOP. As the Global Environment Facility (GEF) has been the entrusted entity, the Adaptation Fund should be operated and managed by the GEF.
2. The Adaptation Fund should be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding. Funding of adaptation to climate change will need to be drawn from a variety of sources, including funding from the private sector, from existing development assistance funding as well as from other bilateral and multilateral sources.
3. Funding activities of the Adaptation Fund shall be made in a way which promotes complementarity with other funding activities, especially with funding for adaptation activities under the Special Climate Change Fund and the Least Developed Countries Fund, while the Adaptation Fund should not be a duplication of other Funding mechanisms.
4. GEF shall ensure transparency and adequacy in the management of the Adaptation Fund. The operation of the funding process should be made expeditiously so that the funding will be available in a timely manner.

PAPER NO. 6: MEXICO

14 February 2006

Financial Mechanism (Kyoto Protocol)

Possible arrangements for the management of the Adaptation Fund

Submission by Mexico

I. Mandate

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) at its first session (Montreal, Canada, 28 November - 9 December 2005), invited Parties and relevant international organizations to submit to the secretariat, by 13 February 2006, their views on possible arrangements for the management of the Adaptation Fund for consideration by the Subsidiary Body for Implementation at its twenty-fourth session.

Mexico welcomes this opportunity to provide views and submits the following inputs on the issue.

II. Possible arrangements for the management of the Adaptation Fund

Due to the relevance and urgent need for the implementation of adaptation activities in developing countries, Mexico would like to see the Adaptation Fund operationalized as soon as possible; however, we share the concern of the GEF that care must be taken to identify and pursue a transparent encashment fund that will be robust in the context of this new market.

In order to assess the different points of view regarding the management of the Fund to have an enhanced and deeper discussion on the issue, we deem necessary the organization of the workshop, with the participation of the Global Environment Facility (GEF), the World Bank and The Multilateral Fund for the Implementation, during the session, as recommended by the First Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol.

In this regard, we would like to ask the Secretariat to invite the workshop representatives of :

a) The Global Environment Facility (GEF) and the World Bank

Since the COP had requested the GEF to operate the Adaptation Fund and the GEF Council invited the World Bank to serve as trustee of this new fund in May 2002¹, we believe that the discussion referring the operationalization of the Fund can be enhanced by the existing arrangements made by both institutions, and we would like them to present their options regarding the following:

1. Separation of accountability and disbursement,
2. CER encashment,
3. Designation, management and optimization of financial resources management,
4. Transparent reporting of financial resources management, and
5. Guarantees for the achievement of the objective of the fund.

¹ FCCC/CP/2005/3 paragraph 31

b) The Multilateral Fund for the Implementation of the Montreal Protocol

The Multilateral for the Implementation of the Montreal Protocol is known in the international environmental arena as a successful funding instrument for projects that eliminate the use of ozone depleting substances. This Fund has an experience of more than a decade developing projects in an expedite and effective manner.

In this sense, we consider that the Secretariat and the Executive Committee of the Multilateral Fund of the Montreal Protocol could help to the discussion of the management of the Adaptation Fund, presenting their experiences regarding:

1. Structure of the Fund (the Meeting of the Parties, the Secretariat and the Executive Council),
2. Decision-making process,
3. Project eligibility criteria,
4. Implementing agencies, and
5. Business planning.

Whether it is decided to have the GEF as the operating entity of the Adaptation Fund or to develop a new scheme, we would like to underline the importance of the complementarity and synergy of different financing sources -both multilateral and bilateral-, for the development of integral projects that effectively help developing countries to adapt to the adverse effects of climate change.

PAPER NO. 7: PHILIPPINES

PHILIPPINE VIEWS ON DECISION 6/CMP.1 << INITIAL GUIDANCE TO AN ENTITY ENTRUSTED WITH THE OPERATION OF THE FINANCIAL MECHANISM OF THE CONVENTION, FOR THE OPERATION OF THE ADAPTATION FUND>>

The Philippine submission is based on the following considerations:

1. The Adaptation Fund was established in the implementation of Article 12.8 of the Kyoto Protocol. Article 12 defines the name of the Clean Development Mechanism (CDM).
2. **The financial mechanism of the Convention is NOT the financial mechanism of the Protocol.** The reference to the financial mechanism in Article 11 of the Protocol relates to the Implementation of Article 10 >> (Article 11.1) which is advancing in the implementation of **existing** commitments, and therefore is linked with the financial mechanism of the Convention.
3. **The title of the decision is therefore inaccurate, misleading and tendentious,** because an entity entrusted with the operations of the financial mechanism is not necessarily entrusted with the operation of the Adaptation Fund.
4. Article 12.8 << ensures that a share of the proceeds from certified project activities>> cover administrative expenses, and <<to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. >> **It is the means through which developing countries share among themselves the benefits derived from CDM projects,** given that there are many developing countries with very limited mitigation options, and thus can undertake only very small CDM project activities, if at all. Moreover, these countries are often the most vulnerable to the adverse effects of climate change.
5. **The main source of funds for the Adaptation Fund would therefore be from CDM projects themselves, as undertaken by non-Annex I Parties, not donor or aid financing,** although voluntary contributions can be channeled into the Fund.
6. The great danger therefore exists that if the Adaptation Fund is entrusted to an operating entity of the financial mechanism of the Convention, the same project conditionalities that are imposed on project activities under the Convention are likewise imposed on activities funded under the Adaptation Fund, whereas the main source of funding would not be donor contributions to this operating entity. **Countries which are members of the governing body of this operating entity, and which are not State Parties to the Protocol, would therefore control the operation and management of the Adaptation Fund.**
7. In this regard, operative paragraph 2 of the decision 6/CMP.1 is also inaccurate in that it states that the Adaptation Fund << shall be accountable to the COP/MoP >>, whereas the reference to the CDM, and thus to the Fund established under it in Article 12, as stated in Article 12.4 of the Protocol, provides that it shall be << **subject to the authority** and guidance of the COP/MoP.>> Once again, the reference in the decision is inaccurate and tendentious, because clearly the current operating entity of the financial mechanism of the Convention cannot be subject to the authority of the COP/MoP.

Given the above considerations, the Philippines believes that for operative para. 5 of this decision:

1. **The operation of the Adaptation Fund cannot be subject to the same conditionalities, project cycle, etc.... followed by the current operating entity of the financial mechanism of the Convention.**
2. The initial guidance on policies, programme priorities and eligibility criteria developed by the Convention in Decision 11/CP.1, in particular as it relates to adaptation (operative paragraph 1 –d of Decision 11/CP.1) can only be followed **in terms of the stages of adaptation provided for, and not in terms of the low funding should be provided at each stage.**
3. Given further that Decision-/CMP.1 states that in its operative paragraph 1 that the Fund shall finance **concrete adaptation projects and programmes**, funds must be provided for **only in Stage III activities** as defined under the convention decisions, that is, << measures to facilitate adequate adaptation: including insurance ...>>. These would exclude planning (Stage 1) and further capacity-building (Stage II) activities which have been funded under the Convention.

On operative paragraph 6:

1. **The management of the Fund shall be subject to the authority of the COP/MoP**, consistent with article 12 of the Protocol, and not only operate under its guidance or be accountable to it;
2. Arrangements do not necessarily confine itself to the current operating entity of the financial mechanism of the Convention, and could likewise **consider other existing arrangements under different financing institutions. UN agencies and mechanisms of other Conventions, such as the Multilateral Fund of the Montreal Protocol of the Vienna Convention on the Protection of the Ozone Layer.** This was the original suggestion made during the COP/MoP 1, and which the Philippines agreed to, on behalf of the Group of 77 and China, and this is our understanding of this paragraph.

PAPER NO. 8: SAUDI ARABIA

SUBMISSION BY SAUDI ARABIA

February 6, 2005

FINANCIAL MECHANISM (KYOTO PROTOCOL)

Introduction

The SBI at its 23rd session held in Montreal, invited parties to submit to the secretariat, by 13 February 2006, views on specific policies, programme priorities and eligibility criteria with respect to the adaptation fund (Document FCCC/SBI/2005/L.32, paragraph 5). The SBI also invited parties and relevant international organizations to submit views on possible arrangements for the management of the adaptation fund (Document FCCC/SBI/2005/L.32, paragraph 6).

Saudi Arabia welcomes the opportunity to submit its views on the specific policies, programme priorities and eligibility criteria with respect to the adaptation fund as well as possible arrangements for its managements.

Saudi Arabia also welcomes the request by COP/MOP for the secretariat to organize a workshop, before SBI 24 and subject to availability of funds, in order to have further exchange of views regarding further guidance for the operation of the Adaptation Fund.

Management of the Fund

In accordance with Decision 10/CP.7, 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.

Although the Global Environmental Facility (GEF) is currently the entity entrusted with the operation of the financial mechanism of the convention (in accordance with decision 3/CP.4), decision 10/CP.7 does not name the GEF as the entity to manage the adaptation fund. The concern that Saudi Arabia has with the GEF is in the conditionality that they apply to developing countries in order to receive support.

The adaptation fund could have sources of funding including contributions from donor countries. However, the fund is to be financed mainly from the share of proceeds on the clean development mechanism project activities. With this criterion, Saudi Arabia strongly believes that the decisions on how the funds are disbursed should be made by the COP/MOP and not by the GEF.

There are two options for managing the adaptation fund:

1. The establishment of a new body that functions under guidance from the COP/MOP where all criteria for the disbursement of the funds are established and set by the Parties.
2. Entrusting the GEF with the management of the fund under the condition that the fund will not be subject to the existing conditionality and criteria the GEF uses for fund disbursement. In managing this fund, the GEF should only follow a new set of criteria that is to be determined by the Parties through the COP/MOP. Furthermore, the GEF, shall provide feedback to the COP/MOP, on the status of support for the implementation of activities as agreed and mandated by Parties.

Eligibility And Programme Priorities

In accordance with Decision 10/CP.7, the an adaptation fund was 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;

With this clear definition that was the basis for the establishment of the adaptation fund, all developing countries that are Parties to the Protocol are eligible for support this fund. All the detailed activities and programs being developed under the five-year work program for adaptation represent concrete actions that should take priority for funding.

The economic diversification sub-theme addressed within the five-year programme of work is an important area where funding is needed to:

- Promote understanding and the development and dissemination of measures, methodologies and tools for economic diversification aimed at increasing economic resilience and reducing reliance on vulnerable economic sectors, especially for relevant categories of countries listed in Article 4, paragraph 8, of the Convention.
- improve the quality of models, in particular those that assess the adverse impacts on social and economic development as consequence of the responses to climate change, taken into full account the legitimate priority needs of developing countries with specific emphasis on countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products

Other programmes and activities can be further added to the list at any point in addition to the initial activities.

PAPER NO. 9: SOUTH AFRICA

SUBMISSIONS FROM THE SOUTH AFRICAN DELEGATION

ANNEX 2: Financial mechanism under the Kyoto Protocol, Views from Parties and relevant international organization on possible arrangements for the management of the Adaptation Fund

The Government of South Africa welcomes the opportunity to submit its views on possible arrangements for the management of the Adaptation fund. South Africa regards the successful functioning of this fund as a matter of key importance for successful implementation of adaptation activities.

South Africa recognizes the importance of building on existing experience, capacity and infrastructure in identifying an appropriate institution to manage the Adaptation Fund. Within this context, South Africa would propose the identification of an existing funding institution with an established infrastructure and track-record to manage the Fund. The mandate in terms of which the funds should be disbursed must come from the COP/MOP and the funding institution must adhere strictly to this mandate.

South Africa reserves the right to further elaborate on this issue at a later stage.

ANNEX 3: Views from the Parties on specific policies, programme priorities, and eligibility criteria with respect to adaptation Fund

South Africa welcomes the opportunity to express its views on specific programmes, policies, priorities and eligibility criteria with respect to the Adaptation Fund.

With regard to eligibility criteria, the funds available should prioritise countries and regions where available information exists which indicates that the impacts of climate change are likely to be severe. In particular, the fund should be used to support adaptation activities in developing countries and SIDS.

Furthermore, it is our view that the Fund should prioritise support for implementation of activities directed to addressing adaptation to the adverse impacts of climate change, rather than prioritizing research based activities.

In relation to priorities areas for funding it is proposed that the following receive high consideration:

- Activities related to the integration of climate change impacts into planning frameworks and development related decision making.
- Activities related to the improvement of capacity for climate prediction and the development of early warning system, including efforts to enhance disaster management capacity.
- Adaptation projects that support the development of sustainable livelihoods.
- Adaptation projects and activities that focus on sectors that are identified as being particularly vulnerable under different national and regional circumstances. In South Africa example, this would include the agricultural, health, water and biodiversity sectors.

South Africa reserves its right to further elaborate on this issue at a later stage.

PAPER NO. 10: SWITZERLAND

SBI 24

Possible arrangements for the management of the Adaptation Fund

In response to the invitation of the COP/MOP 15) to Parties and relevant international organizations to submit to the Secretariat, by 13 February 2006, their views on specific policies, programme priorities and eligibility criteria for consideration by the SBI 24, Switzerland welcomes this opportunity to provide views and submits the following elements :

1. Switzerland is in favor of operationalizing the Adaptation Fund as soon as possible.
2. To this end, we are in favor of entrusting the Global Environment Facility (GEF) with the management of the fund. The GEF has vast experiences in managing environmental funds, including the Special Climate Change Fund and the Least Developed Countries Fund, and is best suited to take up this task. At the same time, Switzerland would be opposed to duplicating tasks by assigning the management of the Adaptation Fund to a new or an additional entity.
3. After an exchange of views with Mexico, we ask that the GEF Secretariat provides information on how they plan to administer the Adaptation Fund. In particular and as Mexico suggests, we would like information on options regarding :
 - separation of accountability and disbursement
 - CER encashment
 - designation, management and optimization of financial resources
 - transparent reporting of financial resources management, and
 - guarantees for the achievement of the objective of the fund.

Projects to be supported by the Adaptation Fund should be leveraged by other funds and benefit from co-financing. In addition, and certainly at the beginning, the share of proceeds from the clean development mechanism will be limited. Additional funding by donor countries may not change this. Full coverage of project costs, in particular if the projects include Stage III adaptation to climate change projects, would therefore severely limit the number of fundable projects to a very few.

4. We consider that – in addition to the guidance provided in paragraph 3 of the relevant decision of the COP/MOP – the operation of the Adaptation Fund would have to be :
 - cost-effective
 - providing coverage of additional costs necessary to cover adaptation
 - guided by streamlined procedures
 - leveraged by other funds
 - consistent with the approach to funding adaptation under the Special Climate Change Fund and the Least Developed Countries Fund

- supporting the implementation of activities identified in relevant documents such as national sustainable development strategies, poverty reduction strategies, national communications and NAPAs, in order to promote the integration of adaptation measures in national development planning and budgeting
- including regular reporting on how the guidance of the COP/MOP has been implemented
- independently reviews in regular intervals.

PAPER NO. 11: TUVALU ON BEHALF OF THE ALLIANCE OF SMALL ISLAND STATES

Views on Specific, Policies, Programmes, Priorities and Eligibility Criteria of the Adaptation Fund

Submission by Tuvalu on Behalf of the AOSIS

Tuvalu on behalf of the Alliance of Small Island States (AOSIS) would like to present AOSIS initial review on specific policies, programme priorities and eligibility criteria for the operation of the Adaptation Fund, for consideration by the Subsidiary Body for Implementation at its twenty-fourth session (May 2006).

AOSIS welcomes the decision of COP/MOP 1 providing initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention for the operation of the Adaptation Fund.

The third Assessment Report of the Intergovernmental Panel on Climate Change noted that “Adaptation is necessary at all scales to complement climate change mitigation”. It is well-established that AOSIS countries are the most vulnerable countries to the impacts of climate change, and that adaptation is now necessary in all AOSIS states. For many Small Island Developing States (SIDS) the costs of adaptation are very often prohibitive. Thus the Adaptation Fund will be crucial for many SIDS for the provision of critical resources to aid their battle for survival with the changing climate.

Resources for the Adaptation Fund are to come from a share of the proceeds from certified project activities under the Clean Development Mechanism, as well as other sources of funding. AOSIS is of the view that the Adaptation Fund should finance concrete adaptation activities as well as stage 2 and stage 3 adaptation activities. The Adaptation Fund should not be used for initial assessments or vulnerability studies. For many small island states action is what is required not the endless cycle of repetitive case studies. Moreover, AOSIS has consistently promoted the consensus view that stage 1 adaptation activities should be financed and implemented through the process of preparing national communications to the COP and other studies, and that these activities should continue to be funded in this manner.

AOSIS notes that the country driven approach is of paramount importance and that this principle must serve as one of the basic policies for the Adaptation Fund. The fund should also address issues related to sustainability through adaptation, as well as responding to critical needs of countries. The fund should also take into account capacity and technology-related activities which are of necessity incorporated into concrete adaptation activities, particularly in SIDS.

Decision 10/CP.7 established the Adaptation Fund, while decision 5/CP.7, paragraph 8 identifies some of the activities that should be funded through the Adaptation Fund. AOSIS is of the view that the Adaptation Fund should address sectors which are of critical importance to human survival, and economic sustainability. Activities which should be given priority should relate to coastal zone management and protection, water resources, watershed management, disaster planning and mitigation, human health and agriculture. In this respect, AOSIS is open to discussion on exploring the augmentation of insurance schemes for particularly vulnerable sectors such as subsistence agriculture.

It has already been established by the IPCC and accepted by the global community that small island and low lying coastal states are particularly vulnerable to the impacts of climate change. AOSIS member states are the only countries that could literally disappear as a result of changing climate. AOSIS is thus of the view that priority should be given under the Adaptation Fund to projects from SIDS. A special window for SIDS within the Adaptation Fund essential and necessary. Projects should be country driven, and should avoid maladaptation, by paying close attention to the staged approach to adaptation. Projects should be examined with regards to their effectiveness in addressing specific problems, local capacity

building, technology transfer and the promotion of indigenous technological applications where appropriate.

With regards to the arrangements and management of the fund, AOSIS is open to a comprehensive discussion on the issue. However, while we understand that the fund will not be managed under the rules of the GEF's new Resource Allocation Framework, AOSIS has noted its concern with the GEF and its new Resource Allocation Framework which effectively limits access by SIDS to resources that are already limited under the GEF Trust Fund. AOSIS countries already have difficulties in accessing GEF funds. Under the RAF there will continue to be a distinct emphasis towards projects from larger countries, rather than an evaluation of all proposed projects on their merits. In this regard, AOSIS notes the outputs of the Third Overall Performance Study of the GEF, which highlighted the following connection with the GEF Trust Fund:

- (i) SIDS have received only 4% of GEF single country project funding.
- (ii) There has been an emphasis on enabling activities in SIDS (over 80%, and over 88% for Pacific SIDS), compared to other countries receiving GEF funding, and most of these activities have not fostered tangible environmental results.
- (iii) LDCs, SIDS, and less developed CEITs do not have adequate capacity to meet the co-financing requirements of larger GEF projects. Specifically, they do not have the in-country resources or the knowledge about their international donors and how to gain access to external funding options.
- (iv) Focal points and country governments in SIDS and LDCs are not well informed about the GEF (how it works, how it gains access to it).
- (v) GEF communication and outreach strategy is not adequate for reaching out to focal points, NGOs and other stakeholders in LDCs and SIDS.

Given the outputs from the GEF OPS3, and the upcoming implementation of the RAF it is understandable why AOSIS countries are greatly concerned about the way in which the management of the Adaptation Fund will be carried out if the GEF is responsible. AOSIS would like to explore the operation of the multilateral funding mechanism of the Montreal Protocol of the Vienna Convention on Substances that Deplete Ozone Layer and how a similar approach might be applied to the Adaptation Fund. AOSIS is of the view that developing countries should play the central role in governance of the Adaptation Fund, given the nature and purpose of the Adaptation Fund, and that the GEF model for decision-making is inappropriate in the context of the Adaptation Fund.

Procedures for the Adaptation Fund should be simple, clear, avoid co-financing requirements, conditionalities and lengthy project preparation procedures. In particular the concept of incremental costs should not be considered in the context of adaptation projects. Regional organizations should also play a critical role with regard to projects supported by the Adaptation Fund so that countries can access funding through regional organizations that have a better understanding of local conditions rather than large multilateral organizations. It is also important that lessons learned from adaptation projects be adequately documented and disseminated, particularly to other SIDS.

PAPER NO. 12: URUGUAY

Tengo el agrado de dirigirme a usted con referencia a su nota fechada 17 de enero de 2006 y a los **párrafos 5 y 6 del documento FCCC/SBI/2005/L.32**, mediante los cuales se invita a las Partes a presentar sus opiniones sobre: i) políticas, prioridades programáticas y criterios de admisibilidad relativos al Fondo de Adaptación; y ii) posibles arreglos para la gestión del referido Fondo de Adaptación.

Al respecto tengo el gusto de remitirle los siguientes comentarios:

- i) Las directrices del Fondo de Adaptación deben recoger las opiniones de los países en desarrollo. Para ello es necesario realizar las consultas pertinentes con los especialistas de Fondos similares en el ámbito del Fondo para el Medio Ambiente Mundial (FMAM).
- ii) Si bien el Fondo de Adaptación debe cumplir los requisitos de funcionamiento establecidos en el instrumento del FMAM, este debe tener la autonomía suficiente que permita utilizar los fondos de forma flexible y ágil. Asimismo, el Fondo no debe incluirse ni vincularse con el nuevo Marco de Asignación de Recursos del FMAM (RAF).

(Translation provided by the Government of Uruguay)

I am pleased to make reference to your letter of 17 January 2006 and to **paragraphs 5 and 6 of the FCCC/SBI/2005/L.32 document**, inviting Parties to submit their views on: i) specific policies, programme priorities and eligibility criteria relative to the Adaptation Fund; and ii) possible arrangements for the management of the mentioned Adaptation Fund.

In this respect, I am pleased to submit the following comments:

- i) The Adaptation Fund guidelines must include the opinions of the developing countries. Therefore it is necessary to carry on the pertinent consultations with the similar Funds' specialists active in the ambit of the Global Environment Facility (GEF).
- ii) Even though the Adaptation Fund has to comply with the operational requirements established under the GEF instrument, this Fund must have the sufficient autonomy to enable the use of funds in a flexible and fluent manner. At the same time, the Fund must not be included or linked with the new GEF Resources Allocation Framework (RAF).
