



**UNITED  
NATIONS**



**Framework Convention  
on Climate Change**

Distr.  
LIMITED

FCCC/SBI/2007/L.14  
16 May 2007

Original: ENGLISH

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**SUBSIDIARY BODY FOR IMPLEMENTATION**

**Twenty-sixth session  
Bonn, 7–18 May 2007**

**Agenda item 6**

**Financial mechanism (Kyoto Protocol): Adaptation Fund**

## **Adaptation Fund**

### **Draft conclusions proposed by the Chair**

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

ANNEX I

**Negotiating text for draft decision -/CMP.3: Adaptation Fund**

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

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

*Recalling* its decisions 3/CMP.1, 28/CMP.1 and 5/CMP.2,

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

(Note: Text on institutional arrangements to be added)

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

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

## ANNEX II

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

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

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

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

**(2) Governing body:****Structure:**

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

**Composition:**

Decision 5/CMP.2, paragraph 3:

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

Proposal 1:

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

Proposal 2:

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

Proposal 3:

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

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

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

**Decision-making process:**

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

Decisions shall be taken by consensus, whenever possible.

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

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

**Functions:**

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

**Operations:**

Number of meetings:

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

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

Rules of procedure:

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

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

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

Expertise:

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

A secretariat to support the governing body:

The governing body shall be supported by a secretariat.

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

**(3) Trustee:**

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

The governing body shall be responsible for selecting the trustee.

**(4) Implementing agencies:**

Proposal 1:

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

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

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

Proposal 2:

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

**(5) Review:**

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

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

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

Consideration of a trial period on all arrangements.

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

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