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Item 6 of the provisional agenda

Financial mechanism (Kyoto Protocol)

Adaptation Fund

Views from interested institutions on how they would operationalize decision 5/CMP.2

Submissions from institutions

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, by its decision 5/CMP.2, invited interested institutions to submit to the secretariat, by 23 February 2007, their views on how they would operationalize this decision, for consideration by the Subsidiary Body for Implementation at its twenty-sixth session.
2. The secretariat has received one such submission. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.

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GLOBAL ENVIRONMENT FACILITY

February 23, 2007

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

Views on how the GEF would Operationalize Decision 5/CMP.2 of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol on the Adaptation Fund

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

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

1. GENERAL PRINCIPLES

6. The GEF has reviewed the principles listed in decision 5/CMP.2 and fully commits to manage the Adaptation Fund in conformity with them. Several of these principles have been extensively discussed in previous submissions. Therefore this submission will touch upon those principles for which new or additional information can usefully be provided.

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

Specific Principles

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

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

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

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

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

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

12. If decisions of the Council are to be taken by vote, each Member of the Council is to cast the votes of the Participant or Participants he/she represents. A Member may cast separately the

votes of each Participant in the constituency he/she represents. Votes cast by each Member on behalf of each Participant are recorded in the Chairs' joint summary of the meeting.

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

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

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

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

1(e) The Adaptation Fund should operate under the authority and guidance of and be accountable to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol which shall decide on its overall policies

16. The GEF confirms that it would operate under the authority and guidance of, and be accountable to, the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol, which shall decide on its overall policies.

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

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

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

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

20. The GEF Council and the LDCF/SCCF Council are responsible for keeping under review the operation of the funds with respect to their purposes, scope and objectives. The Councils direct the utilization of the funds, review the availability of resources, and approve and review the

operational modalities of the funds. Regular reports on the use of the funds are provided to the relevant Council and to the Conference of the Parties. The same principle and procedures would apply to the Adaptation Fund, and regular reports on the use of the funds would be provided to the COP/MOP and the Council for the Adaptation Fund.

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

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

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

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

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

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

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

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

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

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

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

2. MODALITIES

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

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

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

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

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

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

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

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

- (a) promoting in-depth understanding of the GEF's strategic directions, policies and procedures;
- (b) strengthening country coordination and ownership in GEF operations and sharing lessons learned from project implementation; and
- (c) fostering greater mainstreaming of GEF activities into national planning frameworks and coordination and synergies amongst the GEF focal areas and convention issues at the national level.

32. To support country focal points, the GEF launched the Country Support Program (CSP) in March 2006. The program finances activities to build the capacity of focal points to design, implement, coordinate, and monitor GEF projects. Moreover, it promotes genuine country

ownership of GEF-financed activities and will facilitate active involvement of recipient countries' governments and civil society stakeholders.

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

2(c) Projects should be country-driven and should clearly be based on needs, views and priorities of eligible Parties, taking into account, inter alia, national sustainable development strategies, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist.

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

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

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

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

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

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

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

39. The GEF has mobilized approximately \$180 million of additional resources to address the adverse impacts of climate change under the LDCF and the SCCF. The GEF will continue to

mobilize resources for adaptation and other areas of intervention, consistent with COP guidance, for the climate change funds, and if requested to manage the Adaptation Fund, will seek to mobilize voluntary contributions for the Adaptation Fund.

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

2(f) Competency in adaptation and financial management.

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

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

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

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

44. The World Bank acts as Trustee of the trust funds managed by the GEF, including the GEF Trust Fund, the Least Developed Countries Fund and the Special Climate Change Fund. In this capacity, it holds in trust the funds, assets and receipts which constitute each Trust Fund, and it manages and uses them only for the purposes of the Trust Fund concerned. The Trustee is accountable to the GEF Council for: (a) the maintenance of appropriate records and accounts for each fund and providing for their audit; (b) the disbursement of monies from the funds; (c) the investments of liquid assets in the funds; (d) the preparation of financial reports regarding the investment and use of the funds' resources; and (e) regular reporting on the status of the funds'

resources.

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

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

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

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

48. The Scientific and Technical Advisory Body (STAP) provides scientific and technical advice to the Council, and an independent Evaluation Office evaluates GEF policies and operations. An independent Overall Performance Study is carried out prior to each GEF replenishment. The Overall Performance Study is preceded by focal area evaluations.

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

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

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

Furthermore, the Evaluation Office sets minimum monitoring and evaluation standards within the GEF to ensure improved and consistent measurements of GEF results, and it provides quality control of monitoring and evaluation practices.

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

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

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

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

2(j) *Learning by doing;*

55. The learning-by-doing approach is a long-standing principle followed by the GEF and its Implementing and Executing Agencies. Projects that are under implementation are fine-tuned through a process of adaptive management, so that they are able to use existing best practices to adjust to new challenges. Lessons learned are integrated into future projects. Mid-term and final evaluations of every project are undertaken in order to improve project implementation and to share information to improve the quality of similar projects under preparation and implementation. The GEF is also working with its independent Evaluation Office and GEF agencies to strengthen its knowledge management systems so as to widely disseminate GEF lessons learned.

3. GOVERNING BODY

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

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

to the guidance of the COP or COP/MOP." (Emphasis added.)

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

58. The Council also committed, should the GEF be requested to manage the Adaptation Fund, to agree on a formal voting procedure following further guidance of the COP/MOP and taking into account the GEF Instrument. The World Bank legal staff has advised the Council that a separate voting mechanism differing from the one applied to the GEF Trust Fund can be used with respect to the Adaptation Fund if the Council agrees to such procedures. The procedures would then need to be included in the trust fund administrative agreement establishing the Adaptation Fund as a trust fund managed by the World Bank as Trustee.

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

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

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

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

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

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

ANNEX A

**Submission of the Global Environment Facility (GEF)
on Possible Arrangements for the Management
of the Adaptation Fund
(First submission, February 13th, 2006)**

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) or the GEF web site (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 measures⁴.

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).

⁴ 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. Copying 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 7/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 LDCE and the SCCF is combined with the cumulative support to V&A assessment under enabling activities (approximately \$60m⁵), 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

⁵ Estimated at 30% of the \$140m devoted to enabling activities to date(, plus the Stage II Adaptation Activities listed in Box 2 (\$25m).

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, 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.

ANNEX B

How would you work under the authority of and follow the guidance of the COP?

1. As agreed in the Instrument for the Establishment of the Restructured GEF, the GEF operates under the guidance of the Conference of the Parties to the UNFCCC for activities in the climate change focal area. In addition, in other focal areas, it operates under guidance from the COP of the Convention on Biological Diversity (UNCBD) and the Stockholm Convention on Persistent Organic Pollutants (POPS). The GEF reports to each Conference of the Parties for which it serves a financial mechanism function on how it has implemented its guidance and on all the activities financed in the relevant focal area.
2. According to the UNFCCC and the Instrument for the Establishment of the Restructured GEF, the COP provides guidance to the GEF relating to policies, programme priorities, and eligibility criteria. In turn, the GEF translates this guidance into operational policies and guidelines and, through its network of Implementing and Executing Agencies, finances projects that implement the guidance.
3. Guidance from the COP for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) requests the GEF to achieve specific results and in some circumstances to adopt new operational policies and procedures for each fund. As a result, GEF has agreed on operational policies and procedures necessary under the LDCF and SCCF to fulfill the guidance from the COP.
4. The GEF Council has confirmed that for purposes of the Adaptation Fund (AF), it will operate under the guidance of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol.

How would you propose to address access to the Adaptation Fund in view of the guidance already agreed?

5. According to the COP/MOP, all developing countries that are Parties to the Kyoto Protocol are eligible to access resources from the AF. Therefore, all developing country parties will be eligible to receive support from the AF.

How would you operate/manage the fund in the context of a country-driven approach? In the context of a learning by doing approach?

6. As its first criterion for approval, the GEF requires that a project be country-driven. Each project must be endorsed by the country's designated operational focal point, and the focal point must confirm that the project is consistent with the country's policies and priorities.
7. Projects must demonstrate country drivenness in the form of continued commitment to the project's goals, to the adoption or intention to adopt necessary regulations and legislation, as well as to providing a record of meaningful stakeholder consultations resulting in an open and transparent project design.

8. The learning-by-doing approach is a long-standing principle followed by the GEF and its Implementing and Executing agencies. Projects that are under implementation are fine-tuned through a process of adaptive management, so that they are able to use existing best practices to adjust to new challenges. Lessons learned are integrated into future projects. Independent mid-term and final evaluations of every project are undertaken in order to improve project implementation and to share information to improve the quality of similar projects under preparation and implementation.

9. The GEF is also working with its independent Evaluation Office and GEF agencies to strengthen its knowledge management systems so as to widely disseminate GEF lessons learned.

Would your institution establish its own set of eligibility criteria for access to the fund? How would this be undertaken and how would this relate to the COP/MOP?

10. As is the case with the GEF Trust Fund, the COP/MOP is expected to provide guidance on eligibility criteria for the AF. The GEF will develop operational rules and practices consistent with that guidance and report to the COP/MOP on how it has implemented its guidance.

Would you propose conditions such as co-financing as a criterion for accessing the Adaptation Fund?

11. The GEF will not develop co-financing conditions unless requested to do so through COP guidance. Based upon experience to date with adaptation projects under the strategic pilot on adaptation (SPA), the SCCF, and the LDCF, it is worth noting that the large majority of all adaptation interventions are related to development activities, such as agriculture, water supply, health, infrastructure, and disaster risk management. Adaptation initiatives normally become part of larger development financing initiatives. These other development resources provide de facto co-financing for adaptation interventions.

How would you propose to address the issue of complementarity with respect to the other funds established to address adaptation under the Convention?

12. Complementarity between the various sources for adaptation funding has been established in direct response to COP guidance. Under the GEF Trust Fund, adaptation projects are primarily used to reduce vulnerability of ecosystems and are financed if they lead to global environmental benefits. By comparison, support from the LDCF and the SCCF is primarily related to human development needs and address the adverse impacts of climate change, including climate variability.

13. Resources of the LDCF are available only to the Least Developed Countries that are party to the convention. Its resources are aimed at financing their urgent and immediate adaptation needs.

14. All non-Annex I Parties are eligible for support under the SCCF, which is available to finance adaptation needs in virtually all development sectors, extending even to programming for long-term adaptation needs. The COP identified priority areas of interventions under the SCCF, such as water resources management, agriculture, health, infrastructure development, fragile ecosystems, and integrated coastal zone management.

15. To date, guidance from the COP and the COP/MOP for adaptation activities under the SCCF and the AF is identical. Two options may be envisioned to further define the complementarity between the two funds: 1) the funding of adaptation under the SCCF Adaptation may be considered a pilot for larger financing to be made available under the AF or 2) the COP/MOP may provide

additional guidance to distinguish between the objectives and activities of the two funds.

What administrative and management expenses would apply to the Adaptation Fund, on what basis and for what activities?

16. As is the case with the LDCF and the SCCF, the administrative and management costs of the AF are expected to be borne by the fund. This will include the actual costs of the Trustee in establishing the fund and administering the finances of the fund. It will include the staff costs of managing the programming of the funds. The costs required by the Trustee and the GEF Secretariat will be proposed for approval on an annual or bi-annual basis to the governing body of the Fund.

17. Each fund will also be expected to cover the services of the Implementing and Executing agencies to prepare, implement, and evaluate the projects financed by the fund. The costs of any independent evaluations of the operations of the AF will also be met through the resources of the fund.

How would you propose to maintain the autonomy of the Adaptation Fund?

18. Administratively, the AF would be completely independent from all other funds managed by the GEF. Its governance system will reflect the COP/MOP guidance. It is recognized that different options for a governing structure of the AF are currently under discussion.

Would you be able to keep a separate account/budget line for these funds?

19. Yes. The LDCF and SCCF are already managed through a separate account with their own budget lines. The GEF Secretariat reports on the status and activities of the two funds to each GEF Council meeting.

How would you keep these funds independent of your guidelines and procedures meant for other funds that you may be managing?

20. The guidelines and procedures for the AF will be developed independently of the existing guidelines and procedures for other funds managed by the GEF, and the GEF would report regularly to the COP/MOP on such guidelines and procedures. For both the SCCF and LDCF, separate operational guidelines consistent with the guidance from the COP have been prepared, reviewed, and approved by the GEF Council as the basis for programming under those funds. These guidelines are also provided to the COP in the GEF's annual report to the COP.

What decision-making structure would you apply to the operation/management of the Adaptation Fund?

21. The GEF Council will be reviewing at a Special Council meeting to be held in August 2006, in Cape Town, South Africa, issues related to the governance of the climate change funds established by the seventh session of the COP. This includes the AF. It is expected that the Council decision will address issues regarding the decision-making structure of the AF. Further information on the discussions of the Council will be submitted to the Convention Secretariat following the Council meeting for dissemination to the COP/MOP.

What decision-making structure would you apply to the implementation of guidance from the COP/MOP?

22. Consistent with GEF experience with the conventions for which it serves as a financial mechanism, COP/MOP guidance provided to the GEF will be reflected in the operational policies and guidelines for the AF. The GEF will report to the COP/MOP on how the guidance is implemented.

What decision-making structure would you propose to apply to any questions arising in connection with the application of guidance from the COP/MOP?

23. As stated above, the GEF operates in compliance with COP guidance. There is an ongoing dialogue between the GEF and the COP. The GEF regularly reports to the COP about its operations and its response to guidance. Any questions arising in connection with the application of guidance from the COP or the COP/MOP can be raised in this dialogue. Guidance seeking further clarification may then be given to the GEF, as appropriate.

What approach would you take to facilitate sound financial management and transparency in your management of the Adaptation Fund?

24. As is the case with the LDCF and the SCCF, the GEF will ensure sound financial management and transparency in the operational management of the AF.

25. The International Bank for Reconstruction and Development (IBRD—the World Bank) would exercise the same standard of care in the discharge of its functions as Trustee in respect to this fund as it exercise in its own affairs.

26. The IBRD acting as Trustee would invest the Contribution Funds pending disbursement of funds in an instrument in which IBRD is authorized to invest its own funds. The IBRD acting as Trustee shall credit all investment income to the AF for use for the same purposes as the Contribution funds.

27. The IBRD acting as Trustee would maintain separate records and ledger accounts in respect of the AF and disbursements thereof. For as long as any resources remain in the AF, the Trustee would report to the CEO quarterly on the status of resources in the AF and would provide the Council with an annual financial statement with respect to the fund. Such financial statement would be prepared in United States dollars.

28. The GEF Secretariat will report to each meeting of the governing body of the AF on both resources and programming.

How would you propose to handle the AF in the context of a possible management committee established by the COP/MOP?

29. Should a management committee be established by the COP/MOP, the GEF Council will need to consider how best to interact with the management committee approved by the COP/MOP. The GEF has agreed to act in accordance with the guidance of the Convention on policies, program priorities, and eligibility criteria. In accordance with paragraph 20g of the GEF Instrument, the Council has agreed to “act as the focal point for the purpose of relations with the Conferences of the Parties, including consideration, approval and review of the arrangements or agreements with such Conferences, receipt of guidance and recommendations from them and compliance with

requirements under these arrangements or agreements for reporting to them.”

What independent auditing systems would you apply to the management of the AF?

30. The GEF will apply the same auditing systems to the Adaptation Fund as it does to the operations under the GEF Funds. As required, the Trustee can:

- (a) provide, within six months following the end of each IBRD fiscal year, a management assertion, together with an attestation from the IBRD’s external auditors concerning the adequacy of IBRD’s internal controls over financial reporting for trust funds as a whole – the cost of such attestations shall be borne by the IBRD;
- (b) or, the IBRD as Trustee can cause the annual financial statement prepared by IBRD with respect to the AF to be audited by IBRD’s external auditors and shall forward a copy of such auditors’ report to the Council. The Trustee would deduct the cost of such auditors from the AF.

How would you propose to handle separate accounts for funds other than those funds coming from the share of proceeds of CDM projects that come into the AF?

31. Under existing guidance from the COP, the entity operating the AF is not requested to separate the 2% of the proceeds of the CDM from additional donor contributions to the AF. If, in future guidance, this separation of share of proceeds from donor contributions is requested, then procedures will be put in place to keep these funds separate.

Would you propose to mobilize additional funds and how?

32. The GEF has extensive experience in mobilizing funds, including four replenishments of the GEF Trust Fund.

33. Initial mobilization for the LDCF (approximately \$100 million) and the SCCF (approximately \$50 million – a pledging meeting for the adaptation window of the SCCF is planned for this coming fall) provides further evidence that the GEF is willing and able to mobilize funds for these additional climate change funds through a broad consultation process in which meetings of interested donors are held to discuss programming needs and to obtain pledges.

34. As the adverse impacts of climate change are already affecting vulnerable countries with low adaptive capacity, there is an urgent need to mobilize additional resources for adaptation. The GEF is in the process of scheduling another donor’s consultation to raise additional funds for the SCCF. The GEF would actively engage in working with donors to mobilize additional funds for the operationalization of the AF.
