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**Item 8 of the provisional agenda
Report of the Adaptation Fund Board**

Report of the Adaptation Fund Board

Note by the Chair of the Adaptation Fund Board*

Summary

This report has been prepared in response to decision 1/CMP.3 requesting the Adaptation Fund Board to report on its activities at each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and covers the period from March to September 2008. It provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of tasks outlined in the workplan of the Adaptation Fund Board, and recommends actions to be taken by the CMP, as appropriate. This report contains, inter alia, draft documents prepared for approval by the CMP in accordance with decision 1/CMP.3, as well as documents, decisions and actions taken by the Adaptation Fund Board to be noted by the CMP.

* This document was submitted after the due date owing to the timing of third meeting of the Adaptation Fund Board.

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I. Introduction

A. Mandate

1. The Conference of the Parties, at its seventh session, agreed to the establishment of the Adaptation Fund.¹ The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its third session, decided that the operating entity of the Adaptation Fund would be the Adaptation Fund Board, serviced by a secretariat and a trustee.

2. By its decision 1/CMP.3, the CMP requested the Adaptation Fund Board to report on its activities at each session of the CMP. It further invited the Global Environment Facility to provide secretariat services to the Adaptation Fund Board, and the World Bank to serve as the trustee of the Adaptation Fund, both on an interim basis.

B. Scope of the note

3. This report provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of tasks outlined in the workplan of the Adaptation Fund Board, and recommends actions to be taken by the CMP, as appropriate. The report covers the period from March to September 2008.

C. Possible actions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

4. The CMP may wish to take note of the information contained in this report and approve the following draft documents:

- (a) “Draft rules of procedure of the Adaptation Fund Board”, prepared in accordance with decision 1/CMP.3, paragraph 5 (e), and contained in annex I;
- (b) “Draft legal arrangements for the Adaptation Fund secretariat”, including the draft memorandum of understanding between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Council of the Global Environment Facility regarding secretariat services to the Adaptation Fund and to the Board of the Adaptation Fund, prepared in accordance with decision 1/CMP.3, paragraphs 5 (j) and 31, and contained in annex II;
- (c) “Draft legal arrangements between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the International Bank for Reconstruction and Development (World Bank) regarding the services to be provided by the trustee for the Adaptation Fund”, including draft terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund, prepared in accordance with decision 1/CMP.3, paragraphs 5 (j) and 31, and contained in annex III;
- (d) “Draft strategic priorities, policies and guidelines of the Adaptation Fund”, prepared in accordance with decision 1/CMP.3, paragraph 5 (a), and contained in annex IV.

¹ Decision 10/CP.7.

5. The CMP may also wish to review and take note of the document “Reimbursement of funds to Parties for their contribution pursuant to paragraph 27 of decision 1/CMP.3”, contained in annex V, and approve the decision recommended by the Adaptation Fund Board.

II. Decisions or actions by the Adaptation Fund Board to be noted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session

6. The Adaptation Fund Board invites the CMP to take note of the following key actions and decisions, taken in accordance with decision 1/CMP.3, paragraph 5 (m), during the reporting period:

- (a) **Discussion of operational policies and guidelines.** In accordance with decision 1/CMP.3, paragraph 5 (b), the Adaptation Fund Board had initial discussions on specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, and expects to finalize these policies and guidelines at its meeting in December 2008;
- (b) **Development of criteria to ensure capacity of executing entities.** The operational policies and guidelines referred to in paragraph 6 (a) above will be used, in accordance with decision 1/CMP.3, paragraph 5 (c), as the basis for developing modalities in the operation of the Adaptation Fund to ensure the capacity of executing entities to implement the administrative and financial management guidelines developed by the Adaptation Fund Board;
- (c) **Monetization of certified emission reductions.** In accordance with decision 1/CMP.3, paragraph 5 (k), the Adaptation Fund Board expects the monetization programme to commence as early as practicable after agreement is finalized between the CMP and the trustee regarding the services to be provided by the trustee to the Adaptation Fund within the first quarter of 2009;
- (d) **Establishment of legal arrangements to operationalize the Adaptation Fund.** The Adaptation Fund Board agreed that endowing the Adaptation Fund with a legal status of some kind deserves further consideration and decided to commission a feasibility study. Recognizing that such an approach is likely to take considerable time, the Board is also considering an alternative approach that would provide fiduciary risk management through legal entities established and/or existing at the national level, to enable direct access to resources. For this purpose, the Board has agreed to develop criteria and guidelines for the accreditation of these legal entities, such that these entities may apply international fiduciary standards in the execution of programmes and projects approved by the Board.

III. Work undertaken during the reporting period

7. Since its inception, the Adaptation Fund Board has held three meetings, each of which took place during the reporting period (in March, June and September 2008), and were convened in Bonn, Germany. The agendas and annotations (including background documentation on the agenda items) and detailed reports of the meetings have been made publicly available on the Adaptation Fund website.²

8. The following sections describes the major work undertaken by the Board during the reporting period.

² <<http://www.adaptation-fund.org>>.

1. Election of the Chair and Vice-Chair of the Adaptation Fund Board

9. In accordance with decision 1/CMP.3, paragraph 13, the Adaptation Fund Board, at its first meeting, elected, by consensus, Mr. Richard Muyungi (United Republic of Tanzania) as Chair and Ms. Marita Steinke (Germany) as Vice-Chair of the Adaptation Fund Board. Following Ms. Steinke's resignation in order to take up a new post in her country's government, the Board, at its second meeting, elected, by consensus, Mr. Naoya Tsukamoto (Japan) as Vice-Chair of the Board.

2. Calendar of meetings of the Adaptation Fund Board in 2008

10. The inaugural meeting of the Adaptation Fund Board was held in Bonn from 26 to 28 March, during which time the Board adopted a calendar of meetings for 2008 (see table 1). The Board, at its second meeting, held in Bonn from 16 to 19 June, decided that there was a need for an additional meeting.

Table 1. Calendar of meetings of the Adaptation Fund Board in 2008

Dates	Location
26–28 March	Bonn, Germany
16–19 June	Bonn
15–18 September	Bonn
15–17 December	Bonn

3. Workplan of the Adaptation Fund Board

11. In accordance with decision 1/CMP.3, paragraph 5 (m), the Adaptation Fund Board is responsible for including in its workplan for the period up to CMP 4, inter alia, those functions identified in decision 1/CMP.3, paragraphs 5 (a), (b), (c), (e), (j), and (k), in order for the CMP to adopt or take note thereof.

12. The Board, at its first meeting, adopted the document "Draft 2008 meeting plans for the Adaptation Fund Board". The Board, at its second meeting, adopted the document "Draft 2008 workplan of the Adaptation Fund Board", which modified the meeting plan adopted at the first meeting.

4. Budget of the Adaptation Fund Board and secretariat

13. During its first three meetings, the Adaptation Fund Board considered and approved resources to support the work of the Board and the Adaptation Fund secretariat through 31 December 2008.

5. Role and responsibilities of the Adaptation Fund Board

14. The Adaptation Fund Board, at its second meeting, adopted the document "Draft role and responsibilities of the Adaptation Fund Board", as contained in annex VI.

6. Rules of procedure of the Adaptation Fund Board

15. In accordance with decision 1/CMP.3, paragraph 5 (e), the Adaptation Fund Board is responsible for developing and agreeing on additional rules of procedure to those included in that decision and recommending these for adoption by the CMP.

16. In accordance with its role and responsibilities, the Board, at its third meeting, agreed on the document "Draft rules of procedure of the Adaptation Fund Board", and recommended that this document be approved by the CMP at its fourth session.

7. Role and responsibilities of the Adaptation Fund secretariat

17. The Adaptation Fund Board, at its first meeting, adopted the document “Draft role and responsibilities of the Adaptation Fund secretariat”, as contained in annex VII.

8. Legal arrangements for the Adaptation Fund secretariat

18. In accordance with decision 1/CMP.3, paragraph 5 (j), the Adaptation Fund Board is responsible for developing and approving draft legal and administrative arrangements for secretariat services for approval by the CMP.

19. The Board, at its second meeting, approved the document “Draft legal arrangements for the Adaptation Fund secretariat”, including a draft memorandum of understanding between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Council of the Global Environment Facility regarding secretariat services to the Adaptation Fund and to the Board of the Adaptation Fund, and recommended that this document be approved by the CMP at its fourth session.

9. Role and responsibilities of the Adaptation Fund trustee

20. The Adaptation Fund Board, at its third meeting, began discussion on the document *Draft Role and Responsibilities of the Adaptation Fund Trustee*.³ The Board agreed to continue discussion on this subject at its meeting in December 2008.

10. Legal arrangements for the Adaptation Fund trustee

21. In accordance with decision 1/CMP.3, paragraph 5 (j), the Adaptation Fund Board is responsible for developing and approving draft legal and administrative arrangements for the trustee for approval by the CMP.

22. The Board, at its third meeting, approved the document “Draft legal arrangements between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the International Bank for Reconstruction and Development (World Bank) regarding the services to be provided by the trustee for the Adaptation Fund”, and recommended that this document be approved by the CMP at its fourth session.

11. Monetization of certified emission reductions

23. In accordance with decision 1/CMP.3, paragraph 5 (k), the Adaptation Fund Board is responsible for the monetization of certified emission reductions (CERs) issued by the Executive Board of the clean development mechanism (CDM) and forwarded to the Adaptation Fund, and is required to report annually to the CMP on the monetization of CERs.

24. At the first meeting of the Board, the invited trustee explained that there is uncertainty in how to price CERs as the market for them is limited. As of March 2008, only 130 million CERs had been issued, whereas a potential 2.1 billion CERs could be issued by 2012. Thus an estimated total of 40 million CERs may be held in the CDM Adaptation Fund account by 2012. The trustee proposed to start monetizing the Adaptation Fund CERs once the market infrastructure is fully developed.

25. At the second meeting of the Board, the invited trustee introduced the document “Monetization of certified emissions reductions for the Adaptation Fund”⁴ and presented an approach for monetizing

³ AFB/B.3/3, available at <http://www.adaptation-fund.org/images/AFB.B.3.3_Draft_Role_and_Responsibilities_of_the_AF_Trustee.pdf>.

⁴ <<http://www.adaptation-fund.org/images/AFBB2-9-Monetization.pdf>>.

CERs. The discussion touched on many areas, including: the role of the Board; the key requirements of the monetization programme, including ensuring predictable revenue flow, optimizing revenue while limiting financial risks, improving transparency and increasing cost-effectiveness; the new and developing nature of CER markets; the need to begin the monetization program as early as possible; and ownership of CERs. The question was also raised as to whether the role of trustee and responsibility for monetization should be assigned to a single entity as is currently inferred from decision 1/CMP.3, paragraph 22.

26. The Board took note of the report on the monetization of CERs. The Board noted the urgency of monetizing CERs and decided to establish a monetization committee to discuss, and propose to the Board, at its next meeting, possible alternatives to expedite the process of monetizing CERs, with the assistance of the invited trustee. Refer to annex VIII for the minutes of the meeting of the monetization committee, held on 4 September 2008.

27. The Board, at its third meeting, agreed that the monetization programme should commence as early as practicable, in principle within the first quarter of 2009, under the guidelines for monetization that are consistent with decision 1/CMP.3, paragraph 28. The Board requested the trustee to plan an inaugural transaction including all eligible buyers, executed through dealers, and at a market-clearing price. It also requested the trustee to develop a communications strategy for the inaugural transaction, in consultation with the monetization committee and with the support of the Adaptation Fund secretariat, including a press conference and question-and-answer session to be held at CMP 4.

12. Legal issues pertaining to the operationalization of the Adaptation Fund

28. The Adaptation Fund Board considered various options to meet the provisions of decision 1/CMP.3, paragraphs 29 and 30, related to the operationalization of the direct access modality for eligible parties and authorized entities to access resources from the Adaptation Fund. A report was commissioned by the Adaptation Fund secretariat, the invited trustee and the UNFCCC secretariat, on legal issues pertaining to the operationalization of this modality in order to inform the discussions of the Board. The report proposed the following options:

- (a) Retain the status quo;
- (b) Endow the Adaptation Fund Board with the legal capacity to enter into certain legal agreements;
- (c) Endow the Adaptation Fund with legal personality.

29. After considering these options, the Board agreed, in principle, that endowing the Fund with legal status of some kind requires further consideration and decided to commission a feasibility study in this regard.

30. Recognizing that such an approach is likely to take considerable time, the Board decided to consider an alternative approach in the meantime, which is to provide fiduciary risk management oversight to legal entities that are already established and/or exist at the national level to enable direct access to resources by Parties. For this purpose, the Board decided to develop criteria and guidelines for the accreditation of these legal entities, such that they may apply international fiduciary standards to adaptation programmes and projects approved by the Board.

31. The CMP is requested to take note of the approach presented in paragraph 29 above.

13. Strategic priorities, policies and guidelines of the Adaptation Fund

32. In accordance with decision 1/CMP.3, paragraph 5 (a), the Adaptation Fund Board, at its third meeting, approved the document “Draft strategic priorities, policies and guidelines of the Adaptation Fund”, and recommended that this document be approved by the CMP at its fourth session.

14. Provisional operational policies and guidelines for Parties to access resources from the Adaptation Fund

33. In accordance with decision 1/CMP.3, paragraph 5 (b), the Adaptation Fund Board, at its third meeting, held initial discussions with regard to the document “Provisional operational policies, and guidelines for Parties to access resources from the Adaptation Fund”⁵ which describes specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, consistent with the provisions of decision 5/CMP.2. The Board expects to continue these discussions and finalize this document at its meeting in December 2008.

15. Roles and responsibilities of the implementing and executing entities

34. Decision 1/CMP.3, paragraph 29, provides that “eligible Parties shall be able to submit their project proposals directly to the Adaptation Fund Board and that implementing and executing entities chosen by governments that are able to implement the projects funded under the Adaptation Fund may also approach the Adaptation Fund Board directly.”

35. As part of the provision described in paragraph 45 above, the Board, at its second meeting, approved the document “Draft roles and responsibilities of implementing and executing entities”, with the understanding that the Board will reconsider this document after it has agreed on an option to facilitate the direct access legal entities to the Adaptation Fund.

16. Reimbursements of funds to Parties for their contributions

36. The Adaptation Fund Board, at its third meeting discussed the document “Reimbursement of funds to Parties for their contributions pursuant to paragraph 27 of decision 1/CMP.3”, and recommended that this document be approved by the CMP at its fourth session.

17. Establishment of committees of the Adaptation Fund Board

37. At the second meeting of the Adaptation Fund Board, the Chair circulated a proposal setting out draft terms of reference and operational modalities for the establishment of committees of the Board. The Board welcomed the initiative taken by the Chair in accordance with decision 1/CMP.3

38. The Board decided that the Chair, with the assistance of the Adaptation Fund secretariat, would undertake consultations on the issue with members and alternates, with a view to its consideration, at the third meeting of the Board. After discussing the need for these committees and outlining the draft terms of reference for these committees at its third meeting, the Board decided to postpone its decision until its next meeting. In the meantime, the established ad hoc committee on monetization and budget will continue to assist the Board in the committee-related issues.

IV. Successes and challenges

39. The CMP, at its third session, requested the Adaptation Fund Board to develop mechanisms and proposals to enable the Adaptation Fund to become operational. The Board made significant progress

⁵ Available at <http://www.adaptation-fund.org/images/AFB.B.3.8_Operational_Policies_and_Guidelines_08.26.08_-_revised.1.pdf>.

towards achieving the tasks as instructed by the CMP, and it was the view of the Board that, in the short time available, it had established the necessary institutional infrastructure for the Adaptation Fund to be ready for operation in 2009, should the proposals of the Board be adopted by the CMP at its fourth session.

40. The Board acknowledged the timely financial support provided by Australia, Finland, France, Norway, Switzerland, the United Kingdom of Great Britain and Northern Ireland, and the recent pledges of financial support from Denmark, France, Japan and the United Nations Environment Programme, which have enabled the quick start of the work of the Board.

41. The Board also recognized the support of the Adaptation Fund secretariat, the invited trustee and the UNFCCC secretariat. The Board would like to acknowledge the vital role that the UNFCCC secretariat (currently an observer) has played in the operationalization of the Adaptation Fund in cooperation with the Adaptation Fund secretariat and the invited trustee, particularly its assistance with the legal aspects related to establishing and operationalizing the Adaptation Fund.

1. Successes

42. The Adaptation Fund Board agreed to and delivered on an ambitious workplan for 2008, approved budgets to support this workplan, established a committee to deal with the monetization of CERs, and established the basic institutional architecture for the Adaptation Fund, including:

- (a) Role and responsibilities of the Adaptation Fund Board, Adaptation Fund secretariat and trustee;
- (b) Rules of procedure of the Adaptation Fund Board;
- (c) Legal arrangements for the Adaptation Fund secretariat, including the draft memorandum of understanding between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Council of the Global Environment Facility regarding secretariat services to the Adaptation Fund and to the Adaptation Fund Board;
- (d) Legal arrangements between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the International Bank for Reconstruction and Development (World Bank) regarding the services to be provided by the trustee for the Adaptation Fund.

43. With the aim of providing resources to enable developing country Parties to undertake concrete adaptation activities, the Board also worked on operationalizing the Fund, agreeing to and taking action on:

- (a) Legal issues pertaining to the operationalization of the Adaptation Fund;
- (b) Strategic priorities, policies and guidelines of the Adaptation Fund;
- (c) Roles and responsibilities of the implementing and executing entities;
- (d) Operational policies and guidelines for Parties to access resources from the Adaptation Fund;
- (e) Monetization of CERs.

44. In accordance with decision 1/CMP.3, several decisions taken by the Board are currently being implemented, while others have been recommended for approval by the CMP.

2. Challenges

45. One of the immediate challenges being faced by the Adaptation Fund Board is the availability of resources to support its work. There are considerable costs associated with operationalizing the Adaptation Fund, including the cost of staff, consultants, travel, etc. Financial support provided by certain Parties early in the process has been essential for organizing the first three meetings of the Board, and for supporting the work of the Adaptation Fund secretariat. Without additional financial resources, the secretariat will be limited in its ability to hire dedicated staff to support the work of the Board and to organize meetings early in 2009 to finalize the monetization process.

46. The Chair sought the support of all Parties to ensure that members and alternates are provided with adequate financial support by their respective Parties in order to participate fully in the business of the Board.

47. Another challenge faced by the Board as it operationalizes the Adaptation Fund is to ensure that transaction costs associated with making resources available to eligible Parties are kept to a minimum.

V. Governance matters

48. The rules under which the Adaptation Fund Board is currently constituted, including replacements of resigning members and alternates, implies that all Board members and alternates conclude their tenure at the same time (at the end of two years). It is essential that there be some continuity in the institutional memory of the Board, and for this reason there is the need for Parties to explore other options, such as staggered terms for members and alternates.

VI. Workplan and budget for 2009

49. Having established the basic legal, institutional, and policy architecture in 2008, the Board faces the challenge in 2009 of operationalizing mechanisms to enable eligible Parties to develop and submit funding proposals for consideration by the Board.

1. Workplan

50. The Adaptation Fund Board plans to hold a meeting in December 2008 in Bonn, Germany, at the conclusion of CMP 4. At this meeting, the Board expects to approve the workplan for 2009, to be carried out over the course of four meetings to be scheduled in 2009. Some of the major elements of the workplan include:

- (a) The conclusion of legal arrangements with the Adaptation Fund secretariat and the trustee, upon approval by the CMP at its fourth session;
- (b) The launch of the monetization of CERs in 2009 to finance the Adaptation Fund;
- (c) The operationalization of an Adaptation Fund project cycle, including monitoring and evaluation, based on the strategic priorities, policies and guidelines, and operational policies and guidelines;
- (d) The accreditation by the Board of legal entities to function as implementing and executing entities, to assist Parties with the preparation and implementation of concrete adaptation activities;

- (e) The establishment of measures to enhance the capacities of executing entities, including direct access;
- (f) The consideration and approval of project proposals for support with resources from the Adaptation Fund, prepared by eligible Parties, to undertake concrete adaptation activities.

2. Calendar of meetings of the Adaptation Fund Board

51. The calendar of meetings of the Adaptation Fund Board in 2009 can be found in table 2.

Table 2. Calendar of meetings of the Adaptation Fund Board in 2009

Month	Location
March	Bonn, Germany
June	Bonn
September	Bonn
December	Copenhagen, Denmark

3. Budget

52. The budget requirement projected for the 2009 calendar year is USD 2.5 million. The Adaptation Fund Board will consider a detailed budget proposal in December 2008 in order to determine the availability of resources in the administrative trust fund.

VII. Modalities for attendance by observers to the meetings of the Adaptation Fund Board

53. The non-governmental organization (NGO) observers at the second meeting of the Adaptation Fund Board sent a communication to the Chair and the head of the Global Environment Facility (GEF) secretariat. The observers, while expressing their appreciation to the Board and the secretariat for allowing them to participate in the meeting and interact with Board members, put forward the following suggestions to make future meetings fully transparent and allow NGO observers to follow the proceedings:⁶

- (a) Make the proceedings of the meetings of the Board available as webcasts;
- (b) Prepare and approve a press release at the end of each meeting of the Board;
- (c) Enable inputs from NGO observers by:
 - (i) Establishing a procedure for NGOs (and others) to submit comments or information to the Board (e.g. through the Adaptation Fund website);
 - (ii) Giving NGO observers attending the meetings of the Board preferential treatment over those NGOs not attending the Board meetings by allowing them to make interventions (in selected sessions) or present a brief (e.g. three minutes) statement to the Board during the plenary.

⁶ Extracted from the communication from Mr. Sven Harmeling, German Watch, on behalf of the NGO observers, to Mr. Richard Muyungi, Chair of the Adaptation Fund Board, and Ms. Monique Barbut, Head of the Secretariat, on 20 June 2008.

54. The Chair of the Board and the head of the secretariat responded positively to the suggestions from the NGO observers and have since taken the following steps:

- (a) Beginning with the third meeting of the Board in September 2008, the proceedings of the meetings of the Board will be made available as webcasts on the Adaptation Fund and UNFCCC websites;
- (b) A statement will be released to the press, beginning with the third meeting of the Board;
- (c) The rules of procedure of the Board now include provisions for observers to submit comments or information, and for the Chair to invite interventions from observers.

Annex I

[ENGLISH ONLY]

Draft Rules of Procedure of the Adaptation Fund Board**I. Scope**

1. These rules of procedure shall apply to the conduct of the business of the Adaptation Fund Board, in accordance with Decision 1/CMP.3 of the Third Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. These rules become effective on their adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Until then, it is proposed that the Board follow these rules on an interim basis.

II. Definitions

2. For the purpose of these rules:

- (a) “Fund” means the Adaptation Fund pursuant to Decision 10/CP.7 of the Seventh Conference of the Parties to the United Nations Framework Convention on Climate Change.
- (b) “Board” means the Adaptation Fund Board, established by Decision 1/CMP.3 of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as the Operating Entity of the Adaptation Fund with the mandate to supervise and manage the Adaptation Fund under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.
- (c) “Member” means a representative elected by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as a Member of the Adaptation Fund Board, accorded the right to vote.
- (d) “Alternate” means a representative elected by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as an Alternate for each Member.
- (e) “Meeting” means any meeting of the Adaptation Fund Board.
- (f) “Chair” means the Board Member elected Chair of the Adaptation Fund Board, according to paragraph 10 of these rules.
- (g) “Vice-Chair” means the Board Member elected Vice-Chair of the Adaptation Fund Board, according to paragraph 10 of these rules.
- (h) “Secretariat” is a body appointed by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to provide secretariat services to the Board and to the Fund, consistent with paragraphs 3, 18, 19 and 31 of Decision 1/CMP.3
- (i) “Trustee” means the Trustee for the Adaptation Fund.
- (j) “Implementing Entities” means the organizations that have been identified ex-ante by the Board as meeting the criteria adopted by the Board, in accordance with Decision 1/CMP.3 (5)(c), to access funding to implement concrete adaptation projects and programs supported by the Fund.

- (k) “Executing Entities” are organizations that meet the criteria set by the Board, to access funding to implement concrete adaptation projects and programs supported by the Fund, subject to such audit mechanisms and due diligence criteria as established by the Board.
- (l) “UNFCCC” means the United Nations Framework Convention on Climate Change.
- (m) “Protocol” means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.
- (n) “Parties” means Parties to the Protocol.
- (o) “Annex I Parties” means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2 (g), of the Convention.
- (p) “Non-Annex I Parties” means Parties not included in Annex I of the UNFCCC.
- (q) “Secretary” means the person in charge of providing support services and logistics to the Adaptation Fund Board meetings
- (r) “Head of Secretariat” means the Head of the entity responsible for rendering secretariat services to the Adaptation Fund Board.

III. Board

3. The Board shall comprise 16 Members representing Parties, formally elected by a Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on the Adaptation Fund as follows:
 - (a) Two representatives from each of the five United Nations Regional Groups.
 - (b) One representative of the Small Island Developing States.
 - (c) One representative of the Least Developed Country Parties.
 - (d) Two other representatives from Annex I Parties.
 - (e) Two other representatives from non-Annex I Parties.
4. The election of each Member is to be accompanied by the election of an Alternate following the same principles as set out in paragraph 3 above.
5. The Member and Alternate shall each serve for a term of two calendar years and shall be eligible to serve a maximum of two consecutive terms.
6. In the absence of a Member, or when requested by a Member in writing, his or her Alternate will act for the Member, including by voting in the Member’s stead.
7. If a Member or an Alternate resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, a new Member or Alternate shall be elected in accordance with paragraph 8 of Decision 1/CMP.3.
8. Notwithstanding paragraph 7, if a Member or an Alternate resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, the Adaptation Fund Board may decide, bearing in mind the proximity of the next session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, to appoint another Member, or an Alternate Member, from the same group to replace the said Member for the remainder of that Member’s mandate.

The Adaptation Fund Board shall request the relevant group to nominate the new Member, or the new Alternate.

9. Except as may be expressly provided otherwise in these rules, any reference in these rules to a Member shall be deemed to include his/her Alternate, when such Alternate acts for such Member.

IV. Officers

10. The Board shall elect the Chair and Vice-Chair from among its Members, with one being from an Annex I Party and other being from a non-Annex I Party. The term of office of the Chair and Vice-Chair shall be one calendar year. The office of Chair and Vice-Chair shall alternate annually between a Member from an Annex I Party and a Member from a non-Annex I Party.

11. If the Chair is temporarily unable to fulfill the obligations of the office, the Vice-Chair shall in the interim assume the obligations and authorities of the Chair. In the absence of the Chair and the Vice-Chair at a particular meeting, any other Member designated by the Board shall temporarily serve as the Chair of that meeting.

12. If the Chair or Vice-Chair is unable to complete the term of office, the Board shall elect a replacement to complete the term of office.

13. The Chair shall, inter alia, declare the opening and closing of the meeting, ensure the observance of these rules, accord the right to speak, put questions to the vote and announce decisions. The Chair shall rule on points of order and, subject to these rules, shall have complete control of the proceedings and over the maintenance of order, including adjournment or suspension.

14. The Chair shall propose to the Board chairs and vice-chairs from among the Members and Alternates for specific working groups and committees, as necessary.

15. The Chair, or any Member designated by the Chair, shall report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on behalf of the Board.

16. The Chair shall advocate and seek support for the Fund and the work of the Board. The Chair shall represent the Board at external meetings and shall report back to the Board on those meetings.

V. Secretariat

17. The Secretariat, being a dedicated team of officials to render secretariat services to the Adaptation Fund Board shall:

- (a) Make the necessary arrangements for the meetings of the Board, including ensuring that announcements of the meetings are posted on the Adaptation Fund and UNFCCC websites, issuing invitations, preparing meeting documents and the final report, which will include decisions of the meeting, and shall post all documents on the website of the Adaptation Fund;
- (b) Designate a member of the dedicated team of officials to serve as Secretary of the Adaptation Fund Board meetings to provide support services and logistics.
- (c) Keep meeting records and arrange for the custody and preservation of documents of the meetings in the archives of the entity designated as the Secretariat of the Fund; and
- (d) Generally perform all other functions that the Board may request.

VI. Meetings

18. The Board shall meet at least twice every year or as frequently as necessary to enable it to discharge its responsibilities. The meetings of the Board shall take place in the country of the seat of the UNFCCC Secretariat, except when meeting in conjunction with sessions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or with the sessions of subsidiary bodies under the UNFCCC, in which case the Board meeting may take place in the country/at the venue of the relevant UNFCCC meeting.

19. Unless the Board decides otherwise in accordance with paragraph 20, meetings shall be open to Members, Alternates, and Observers as referred to in paragraphs 31-32. Observers shall inform the Secretariat of the composition of their delegation four weeks prior to the first day of any scheduled meeting.

20. The Board may declare any of its meetings, or segments thereof, closed; these shall then be open to Members, Alternates and the representatives of the Secretariat and the Trustee. The Board may invite any of the representatives referred to in paragraphs 31-32 to attend such meetings.

21. At each meeting, the Board shall set the date and duration for the next meeting.

22. The Secretariat shall notify all Members, Alternates and Observers of the dates and venue of the meetings and circulate a formal invitation and provisional agenda for any meeting at least 6 weeks before the first day of the meeting.

23. A simple majority of the Members of the Board must be present at a meeting to constitute a quorum. Quorum shall be verified by the Chair at the beginning of the meeting and at the time of the adoption of the decision.

24. Before the end of each meeting, the Chair shall present a draft Report of the Meeting containing draft conclusions and decisions of the meeting for consideration and approval by the Board. The Chair shall ascertain the existence of a quorum before adopting the draft Report of the Meeting on the understanding that the Chair would finalize the text, taking into account the amendments proposed during the meeting.

25. Any written records of the Board or recordings of proceedings shall be kept by the Secretariat on behalf of the Board in accordance with paragraph 17 (c) and applicable rules and regulations. The Secretariat shall make available to any Board Member or Alternate, at their request, copies of any records or recordings kept by the Secretariat on behalf of the Board.

VII. Confidentiality and conflict of interest

26. Information obtained from Adaptation Fund project participants marked as proprietary and/or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law.

27. Members and Alternates have a duty not to disclose such confidential and/or proprietary information, unless required by applicable national law. This duty remains an obligation after the Member's term expires.

28. Each member and alternate member shall take and agree to respect a written oath of service before assuming his or her service. The oath of service witnessed by the head of the Adaptation Fund

Secretariat, or his/her authorized representative shall read as follows:

“I solemnly declare that I will perform my duties and exercise my authority as Member or Alternate of the Adaptation Fund Board honourably, faithfully, impartially and conscientiously.

“I further solemnly declare that, subject to my responsibilities within the Adaptation Fund, I shall not disclose, even after the termination of my functions, any information marked confidential coming to my knowledge by reason of my duties in the Adaptation Fund.

“I shall disclose immediately to the Chair of the Adaptation Fund any interest in any matter under discussion before the Adaptation Fund Board which may constitute a conflict of interest or which might be incompatible with the requirements of independence and impartiality expected of a Member or Alternate of the Adaptation Fund and I shall refrain from participating in the work of the Adaptation Fund in relation to such matter.”

29. At each meeting, Members and Alternates must declare any conflicts of interest they may have in relation to any items on the agenda.
30. Members and Alternates shall be bound by the rules of procedure of the Board, and shall recuse themselves for all related deliberations and decision-making should any personal and/or financial interest arise in any aspect of a project activity or a body representing a project for approval to the Board. Members and Alternates have an obligation to promptly disclose any such situation.

VIII. Observers

31. Except where otherwise decided by the Board, meetings shall be open for attendance as Observers to representatives of UNFCCC Parties, the UNFCCC secretariat and UNFCCC accredited observers. Such Observers may attend without the right to vote.
32. The Secretariat shall, upon the request of the Board, notify any individual or entity, whether national or international, governmental or non-governmental, qualified in the field related to the work of the Fund, of any meeting so that it may be represented by an observer.
33. Observers may, upon the invitation of the Chair and if there is no objection from any of the Members present, participate without the right to vote in the proceedings of any meeting in matters of direct concern to the body or agency which they represent.
34. Observers may, upon invitation of the Chair and if there is no objection from the Member present, make presentations relating to matters under consideration by the Board.

IX. Procedures for public communication

35. The Secretariat shall acknowledge receipt of unsolicited communications addressed to the Chair and make them available to the Chair and the Board via email or fax. The Chair, with the support of the Secretary of the Board, shall initiate action, including consultation with the Board, as needed, and answer unsolicited communications on behalf of the Board, as appropriate.
36. Unsolicited communications may be taken into consideration at the Board's next meeting if received before the document submission deadline (four weeks prior to the meeting). Any unsolicited communication received after this deadline would normally be considered at a subsequent meeting. At the discretion of the Chair, a communication may be brought forward to the Board.

37. If a Member or Alternate of the Board, in that capacity, receives an unsolicited communication, he/she shall forward it to the Secretariat, copying the sender of the unsolicited communication, for processing as per the above. The same shall apply for submissions received by members of panels, committees or working groups.

X. Agenda

38. The Chair, assisted by the Secretariat, shall draft the provisional agenda for each regular meeting . The Secretariat shall indicate the administrative and financial implications of all substantive agenda items submitted to the meeting. The provisional agenda, together with the notice of the meeting and other relevant documents, shall be transmitted to all those invited to the meeting in accordance with paragraphs 22 and 43 of these rules.

39. The Board shall, at the beginning of each meeting, adopt the agenda for the meeting.

40. Any item on the agenda of any meeting, consideration of which has not been completed at the meeting, shall automatically be included in the agenda of the next meeting unless otherwise decided by the Board.

XI. Travel

41. As soon as the Trust Fund for the Adaptation Fund is established, eligible Members and Alternates of the Board shall have their full costs of travel and DSA, including full transit costs, at the standard UN DSA rate, as provided under the budget of the Board and Secretariat.

42. As soon as the Trust Fund for the Adaptation Fund is established, travel for Board Members and Alternates shall be arranged according to United Nations rules.

XII. Transmittal of Documents

43. The Secretariat shall transmit the documentation related to items on the provisional agenda to all those invited to the meeting at least four weeks before the first day of the meeting scheduled. In exceptional circumstances, the Chair may instruct the Secretariat to transmit a document after the deadline.

XIII. Decision-making and voting

44. Decisions of the Board shall be taken by consensus whenever possible.

45. If all efforts at reaching a consensus have been exhausted and no agreement has been reached, decisions shall be taken by a two-thirds majority of the Members present at the meeting on the basis of one member, one vote.

46. An Alternate may cast a vote only if acting for the Member in accordance with paragraph 6.

47. The Chair shall ascertain whether consensus has been reached. The Chair shall declare that a consensus does not exist if there is a stated objection to the proposed decision under consideration by a Member or Alternate acting for a Member.

48. After ascertaining the existence of a quorum, the Chair shall announce the start of voting, after which no one shall be permitted to intervene until the results of the vote have been announced, unless an issue is raised in connection with the process of voting.

49. Voting shall be by roll-call, which shall be taken in alphabetical order of the names of the Members, beginning with the Member whose name is drawn by lot by the Chair.
50. The name of each Member shall be called in all roll-calls, and he/she shall indicate the vote (“yes” or “no”) or abstention.
51. Votes cast by each Member participating in a roll-call shall be recorded in the report of the meeting.

XIV. Termination of Board Membership

52. The Adaptation Fund Board may propose to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol the termination of the membership of any Member or Alternate for cause including, inter alia, breach of the conflict of interest provision, breach of the confidentiality provisions, or failure to attend two consecutive meetings of the Board without proper justification.
53. The Adaptation Fund shall recommend to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol the termination of the membership of a Member or an Alternate only after the Member or Alternate has been given the opportunity of a hearing by the Board in a meeting.
54. Any motion calling for the termination of the membership of a Member or Alternate shall be decided in accordance with the voting rules in section XIII. When the motion concerns the termination of the Chair, the Vice-Chair shall act as Chair until the voting has been conducted and its result announced.

XV. Committees and Working Groups

55. The Board may establish committees, panels and working groups, if required, to provide, inter alia, expert advice, to assist the Adaptation Fund Board in the performance of its functions.

XVI. Intersessional decisions

56. Decisions without meeting may occur on an extraordinary basis when, in the judgment of the Chair and Vice-Chair, a decision must be taken by the Board that should not be postponed until the next meeting of the Board. The Secretariat, with the approval of the Chair, shall transmit to each Member and Alternate a proposed decision with an invitation to approve the decision on a no-objection basis.
57. Each Member’s comments on the proposed decision shall be sent to the Secretariat during such period as the Secretariat may prescribe, provided that such period is no less than two weeks.
58. At the expiration of the period prescribed for comments, the decision shall be approved unless there is an objection. If a proposed decision has financial implications, approval of the decision will require replies from at least two-thirds of the Members. If there is an objection raised by any Member to any proposed decision that cannot be resolved, the Chair shall include consideration of the proposed decision as an item in the agenda for the next meeting.
59. The Secretariat shall inform Member and Alternates about the decision and post all intersessional decisions on the Adaptation Fund website.

XVII. Languages

60. The working language for the Board shall be English. Simultaneous interpretation shall be provided during the meeting in all of the UN official languages that correspond to the actual language requirements of the Members and Alternates present at that meeting.

61. Late meetings, committees and working groups will be held in English when interpretation is not available.
62. Documents for the meetings will be provided in English only.
63. The full text of all reports including decisions taken by the Board shall be made publicly available via the Adaptation Fund website in all the six official languages of the United Nations.

XVIII. Amendments to Rules of Procedure

64. These rules of procedure may be amended according to paragraphs 44-51 above and, to be effective, must be formally approved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

XIX. Overriding authority of the Kyoto Protocol

65. In the event of any conflict between any provisions of these rules and any provisions of the Kyoto Protocol, the Kyoto Protocol shall prevail.

Annex II**Draft Legal Arrangements for the Adaptation Fund Secretariat****INTRODUCTION**

1. Article 12, of the Kyoto Protocol to the United Nations Framework Convention of Climate Change, in defining a Clean Development Mechanism, makes a provision to, “ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.” Further, Decision 10/CP.7 of the Conference of the Parties to the UNFCCC established the Adaptation Fund to “finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Protocol...”
2. Decision 1/CMP.3 of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol established the Adaptation Fund Board as the operating entity of the Adaptation Fund. Paragraph 19 of Decision 1/CMP.3, “invites the Global Environment Facility to provide secretariat services to the Adaptation Fund Board on an interim basis.”
3. The text of a draft Memorandum of Understanding (MOU) between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Council of the Global Environment Facility regarding secretariat services to the Adaptation Fund Board is presented in Annex 1.
4. The form adopted is that of a memorandum of understanding. A memorandum of understanding is a form of arrangement that is often used to denote a firm, but not legally binding, commitment between two or more organizations. It provides that the arrangements described therein will become effective upon approval by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the GEF Council. This draft Memorandum will also be presented to the GEF Council at its upcoming meeting in November 2008 for comments and guidance.
5. The Memorandum will be finalized upon mutual agreement by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the GEF Council.

DRAFT

MEMORANDUM OF UNDERSTANDING BETWEEN THE CONFERENCE OF THE PARTIES SERVING AS THE MEETING OF THE PARTIES TO THE KYOTO PROTOCOL AND THE COUNCIL OF THE GLOBAL ENVIRONMENT FACILITY REGARDING SECRETARIAT SERVICES TO THE ADAPTATION FUND AND TO THE BOARD OF THE ADAPTATION FUND

I. Preamble

The Conference of the Parties to the United Nations Framework Convention on Climate Change (hereinafter the Conference of the Parties) serving as the meeting of the Parties to the Kyoto Protocol (hereinafter the COP/MOP) having decided (Decision 5/CMP.2) the establishment of the Adaptation Fund of the Kyoto Protocol (hereinafter the Fund) and having further decided (Decision 1/CMP.3) that the operating entity of the Fund shall be the Adaptation Fund Board (hereinafter the Board) established to supervise and manage the Fund, and that the Board should develop and approve draft legal and administrative arrangements for secretariat services and the trustee for approval by the meeting of the Parties (Decision 1/CMP.3 Paragraph 5(j)), and having invited the Global Environment Facility (hereinafter the GEF) to provide secretariat services to the Adaptation Fund Board, on an interim basis,

Recognizing the willingness of the GEF to provide secretariat services to the Adaptation Fund (hereinafter the Secretariat) on an interim basis;

Having consulted with each other and taking into account the relevant aspects of their governance structures, as reflected in their constituent instruments;

The COP/MOP and the GEF Council (hereinafter the Council) have reached the following understanding in accordance with the recommendation of the Board:

II. Purpose

The purpose of the present Memorandum of Understanding is to make provisions for the relationship between the COP/MOP and the Council and to fulfill Article 12 of the Kyoto Protocol and Decision 1/CMP.3 in connection with the provision of secretariat services as the Secretariat.

III. Secretariat Services

The Secretariat shall:

1. As a dedicated team of officials, provide secretariat services to the Adaptation Fund Board in a functionally independent and effective manner;
2. Manage the daily operations of the Fund and report to the Adaptation Fund Board;
3. Assist the Board in developing strategies, policies and guidelines for the Fund;
4. Ensure timely implementation of the decisions of the Board;
5. With respect to the day to day functioning of the Fund, act as liaison between the Board and Parties and implementing and executing entities;

6. Make arrangements for the meetings of the Board, including issuance of invitations and preparation of documents and reports of meetings and provide a Secretary of the Board meeting;
7. Develop the work programme and annual administrative budget of the Fund and submit them for approval by the Board;
8. Ensure the implementation of Adaptation Fund operational policies and guidelines developed by the Board through, inter alia, the development of a project cycle based on criteria to be adopted by the Board;
9. Operationalize the project cycle by:
 - undertaking initial review and screening of project proposals to assess conformity with guidelines approved by the Board,
 - presenting project proposals for Board approval,
 - monitoring implementation of progress, and
 - periodically reporting to the Board on portfolio performance;
10. Coordinate the formulation and monitor the implementation of projects, ensuring liaison with other bodies as required;
11. Liaise as appropriate, with the secretariats of other relevant international bodies;
12. Provide the Trustee with all relevant information to enable it to carry out its responsibilities, consistent with the decision 1/CMP.3 and the decisions of the Board;
13. Provide services to ensure and facilitate proper communication with parties;
14. Perform any other functions assigned to it by the Board.

The head of the secretariat responsible for rendering the services shall be accountable to the Adaptation Fund Board.

IV. Amendments

Any amendments to the present Memorandum of Understanding will be mutually agreed upon by the COP/MOP and the GEF Council. The Board may recommend to the COP/MOP any amendments to the Memorandum of Understanding.

V. Interpretation

If differences arise in the interpretation of the present Memorandum of Understanding, the GEF Council and the COP/MOP or, as appropriate, the Board will consult each other and reach a mutually agreed solution.

VI. Entry into Effect

The present Memorandum of Understanding will come into effect upon adoption by the COP/MOP and the GEF Council. Either party may withdraw this Memorandum of Understanding at any time by notification addressed to the other. The withdrawal will take effect six months after its notification.

VII. Review

Paragraph 32 of Decision 1/CMP.3 provides for a review of the interim institutional arrangements after three years at the sixth session of the COP/MOP. The present Memorandum of Understanding will be reviewed in accordance with that decision. Following that review, this Memorandum of Understanding may be modified to reflect any decisions mutually agreed by the COP/MOP and by the GEF Council.

Annex III**Draft Legal Arrangements between the Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol and The International Bank for Reconstruction and Development (World Bank) Regarding the Services to be Provided by the Trustee for the Adaptation Fund**

1. The Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided in paragraph 31 of decision 1/CMP.3 to request the Adaptation Fund Board to develop the necessary legal arrangements to be concluded between the CMP and the trustee servicing the Adaptation Fund, and present the legal arrangements for adoption by the CMP.
2. In response to the above decision, the draft terms and conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as interim trustee for the Adaptation Fund (the World Bank in such capacity, the Trustee) (the Terms and Conditions), attached as Annex 1, are submitted to the Adaptation Fund Board for its consideration.
3. It is recommended that pursuant to paragraph 31 of decision 1/CMP.3, the Adaptation Fund Board (i) approve the draft Terms and Conditions, (ii) recommend to the Fourth Session of the CMP to conclude the legal arrangement between the CMP and the World Bank by way of approving and accepting the Terms and Conditions, subject to approval and acceptance of the same by the World Bank, and (iii) invite the World Bank to take any necessary action to accept the invitation to serve as the Trustee, including seeking approval of the Terms and Conditions by the Executive Directors of the World Bank, following approval and acceptance of the same by the CMP.

**DRAFT TERMS AND CONDITIONS OF SERVICES TO BE PROVIDED BY THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS TRUSTEE
FOR THE ADAPTATION FUND**

RECITALS

(A) A clean development mechanism (the CDM) was established under Article 12 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the Convention) (the Kyoto Protocol).

(B) The Conference of the Parties to the Convention decided in its decision 10/CP.7 that an adaptation fund (the Adaptation Fund) shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol, as well as activities identified in paragraph 8 of decision 5/CP.7.

(C) The decision was further endorsed by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol through its decision 28/CMP.1.

(D) In decision 1/CMP.3, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol decided that the Adaptation Fund shall finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties, and that the Adaptation Fund Board shall be established as the operating entity of the Adaptation Fund.

(E) The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, in its decision 1/CMP.3, invited the International Bank for Reconstruction and Development (the World Bank) to serve as the trustee for the Adaptation Fund (the World Bank in such capacity, the Trustee) on an interim basis, and requested the Adaptation Fund Board to present the necessary legal arrangements to be concluded between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee, for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session.

(F) The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank wish to conclude the legal arrangements necessary for the World Bank to serve as Trustee on an interim basis by way of adopting and accepting the terms and conditions of services to be provided by the Trustee on an interim basis (the Terms and Conditions) in the manner set forth below.

TERMS AND CONDITIONS

Role and Responsibilities of the Trustee

1. The World Bank shall act as the Trustee on an interim basis in accordance with the Terms and Conditions set forth herein.
2. The Trustee shall comply with the principles and modalities for operations stipulated in the relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and decisions of the Adaptation Fund Board. The Trustee shall be closely consulted in the development of decisions taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board after the effective date of the Terms and Conditions relating in any way to the functions of the Trustee performed or to be performed, and the Terms and Conditions stipulated below shall be applicable. The Trustee shall perform its functions under the Terms and Conditions in accordance with the applicable provisions of the World Bank's Articles of Agreement, by-laws, policies and procedures.
3. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby (i) confirms its designation, under its decision 1/CMP.3, of the Adaptation Fund Board as its designee and delegatee in respect of the Adaptation Fund, acting under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and (ii) imbues the Adaptation Fund Board with the capacity, power and authority to render decisions and provide instructions, directions and guidance to the Trustee hereunder and to cause to be effectuated the sale of certified emission reductions (CERs) collected as the share of proceeds for the Adaptation Fund pursuant to paragraphs 24, 25, 26, 27 and 28 below.
4. The Trustee, in the performance of its functions under the Terms and Conditions, shall be accountable to the Adaptation Fund Board.
5. Without prejudice to any other provisions of the Terms and Conditions, the Trustee shall, in performing its functions under the Terms and Conditions, act upon decisions, instructions, directions or guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board (or such other person designated in writing by the Adaptation Fund Board for that purpose (Authorized Designee)), only if such decisions, instructions, directions or guidance are provided to the Trustee in writing. The Trustee shall not be responsible for inquiring or investigating if any decisions, instructions, directions or guidance of the Adaptation Fund Board or, as the case may be, any Authorized Designees, do not contravene an existing decision or act of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and shall have no liability for relying in good faith on any written decision, instruction, direction or guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, Adaptation Fund Board or any Authorized Designees, without further inquiry or investigation on its part or otherwise for any actions taken, or omitted to be taken, in good faith.
6. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that the Trustee may disclose information obtained by it in connection with its functions under the Terms and Conditions, if such disclosure is required, or otherwise necessary in carrying out the services and activities set out herein, in accordance with the World Bank's policies and procedures.
7. The Trustee shall establish a trust fund for the Adaptation Fund (the Trust Fund), and shall hold in trust, as a legal owner, and administer the funds, assets and receipts, which constitute the Trust Fund, on behalf of the Adaptation Fund supervised and managed by the Adaptation Fund Board.

8. For the purpose of the monetization of CERs for the Adaptation Fund, the Trustee, in its capacity as agent of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, is hereby authorized by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to administer sales of CERs under the instructions, direction and guidance of the Adaptation Fund Board consistent with its responsibility for the monetization of CERs, pursuant to paragraphs 24, 25, 26, 27 and 28 below.

9. The Trustee shall be responsible only for performing those duties and responsibilities specifically and expressly set forth in the Terms and Conditions and shall not be subject to any other duties or responsibilities (express or implied), including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of equity, trust or fiduciary obligations and/or any other legal or equitable principles. To the extent that sales of CERs are conducted by the Trustee pursuant to paragraphs 24, 25, 26, 27 and 28 below, the Trustee shall not be responsible for the legality, validity or enforceability of any such sales of CERs, the value obtained from such sales of CERs (including any reduction in the value of the CERs from the time they are credited to the CDM Account (as defined in paragraph 24 below) to the time such sales are consummated) or any expenses or liabilities incurred in connection with such sales.

10. The Trustee shall not be liable for any failure to carry out its obligations under the Terms and Conditions where such failure is a result of a Force Majeure Event, and, for so long as such circumstances continue, shall be relieved of its obligations under the Terms and Conditions which it has been prevented from fulfilling as a result of that Force Majeure Event without liability; provided that the Trustee shall, notwithstanding that it is relieved from its obligations hereunder, take all reasonable and practical steps to minimize any loss and/or disruption resulting from any such Force Majeure Event. For the purpose of this paragraph, "Force Majeure Event" means any event beyond the reasonable control of the person affected including, without limitation, labor dispute, act of God, war, act or circumstance of terrorism, riot, civil commotion, malicious damage, accident, breakdown of essential computer software, hardware or system failure, fire, flood and/or storm and other unforeseen circumstances materially and adversely effecting the performance of the functions of the Trustee under the Terms and Conditions.

11. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that the World Bank shall have the right to engage in any of the types of activities described in the Terms and Conditions for its own account or for the account of clients other than the Adaptation Fund whether acting as trustee, adviser or in any other capacity vis-à-vis such clients. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the World Bank, in carrying out such activities for its own account or for the account of others, may decide to adopt approaches and courses of actions, which differ from the approaches and courses of action that the Trustee decides to take in performing the services for the Adaptation Fund described in the Terms and Conditions. In engaging in such activities for its own account or for the account of others, the World Bank will put in place measures designed to avoid or mitigate conflicts of interest arising from its functions under the Terms and Conditions relating to the sale of CERs for the Adaptation Fund.

12. If a decision by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board after the effective date of the Terms and Conditions relates in any way to the functions of the Trustee performed or to be performed under the Terms and Conditions, such decision shall be developed in close consultation with the Trustee. Absent such consultation with and the agreement of the Trustee, the Trustee shall not be bound by any decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board, to the extent that such decision relates in any way to the functions of the Trustee performed or to be performed under the Terms and Conditions.

13. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the Trustee shall be fully indemnified, out of the assets held for the Adaptation Fund, including the Trust Fund resources, for any liabilities, claims, losses, costs and expenses, including attorneys' fees and expenses, incurred by the Trustee in connection with or in any way arising out of its activities as Trustee, including but not limited to any activities of the Trustee in connection with the sale or the facilitation of the sale of the CERs. Such indemnity shall not include any liabilities, claims, losses, costs or expenses incurred by the Trustee as a direct result of its own gross negligence or willful misconduct.

14. The privileges and immunities accorded to the World Bank shall apply to the property, assets, archives, operations and transactions of the Trust Fund. Nothing in the Terms and Conditions shall be considered a waiver of any privileges or immunities of the World Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

15. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the Trustee shall be reimbursed annually from the assets held for the Adaptation Fund, including the Trust Fund resources, the fees, costs and expenses incurred by it in connection with performing its functions under the Terms and Conditions, including, without limitation, the costs and expenses incurred in connection with the establishment and administration of the Trust Fund, the sales of CERs, and any and all services provided hereunder, including attorneys' fees and expenses and external auditors' costs, costs of insurance policies and relevant service providers' fees. For this purpose, the Trustee shall submit to the Adaptation Fund Board a proposal for mutual agreement for the services and activities to be provided by the Trustee and estimated fees, costs and expenses to carry out such services and activities for the initial and/or upcoming fiscal year, as applicable. Upon approval by the Adaptation Fund Board of such proposal, the Trustee shall deduct and transfer the amount of the estimated fees, costs and expenses to its own account from the Trust Fund resources or such other assets held for the Adaptation Fund; provided that the amount of the fees, costs and expenses transferred shall be subject to an end of year adjustment based on actual costs and expenses incurred.

16. In order to enable the Trustee to carry out its functions enumerated in the Terms and Conditions, the Trustee shall be entitled to attend any meetings of the Adaptation Fund Board, and, as an observer, any meetings of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which may concern operations and activities of the Adaptation Fund. Further, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby requests the secretariat servicing the Adaptation Fund Board and the Adaptation Fund in accordance with decision 1/CMP.3 and the secretariat of the Convention (the UNFCCC Secretariat) to cooperate fully with the Trustee.

Administration of the Trust Fund

17. The Trustee shall receive and hold in the Trust Fund any proceeds from sales of the CERs conducted pursuant to paragraphs 24, 25, 26, 27 and 28 below. If requested by the Adaptation Fund Board, the Trustee may accept, on terms mutually agreed between the Trustee and the Adaptation Fund Board, contributions from donors to support the operations of the Adaptation Fund. For the avoidance of doubt, no CERs shall be held in the Trust Fund.

18. Subject to paragraphs 2 and 12 above, the Trustee shall administer the funds, assets and receipts of the Trust Fund only for the purpose of, and in accordance with, the Terms and Conditions and the relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Adaptation Fund Board.

19. In accordance with paragraph 21 of decision 1/CMP.3, and in conformity with the administrative and investment arrangements of the Trustee, the Trustee shall hold the funds, assets and receipts that constitute the Trust Fund separate and apart from the funds of the World Bank. The Trustee shall

establish and maintain separate records and accounts to identify the resources of the Trust Fund, the commitments financed out of the Trust Fund, and the receipts and transfers of funds in the Trust Fund.

20. The Trustee shall invest the funds held in the Trust Fund, pending their transfer under paragraphs 15 and 22, in accordance with the Trustee's policies and procedures for the investment of trust funds administered by the World Bank, including commingling of the resources of the Trust Fund for administrative and investment purposes with other trust fund assets maintained by the World Bank. The commingling of Trust Fund resources for administrative and investment purposes should not affect the amount of resources from proceeds of CER monetization available in the Trust Fund for transfer of funds for Adaptation Fund operations, activities, projects and programs. The Trustee shall credit all income from such investment to the Trust Fund to be used for the same purposes as other funds held in the Trust Fund. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that no warranty is given by the Trustee as to the performance or profitability of the investment of the funds held in the Trust Fund.

21. The funds held in the Trust Fund may be freely exchanged by the Trustee into other currencies as may facilitate their administration and transfer.

22. The Trustee shall, subject to the availability of resources held in the Trust Fund, record commitments and make transfers of funds from the Trust Fund in the manner agreed between the Trustee and the Adaptation Fund Board, and only at, and in accordance with the written direction provided to the Trustee by the Adaptation Fund Board or any Authorized Designee. Upon the transfer of funds, the Trustee shall not have any responsibility for the use of the Trust Fund funds transferred and activities carried out therewith, including but not limited to any responsibility with respect to supervising, monitoring, reporting on or verifying activities carried out with the Trust Fund funds transferred by the Trustee herein.

23. The Trustee shall prepare and furnish the Adaptation Fund Board with financial reports of the Trust Fund annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree), and cause records and accounts of the Trust Fund to be audited by its external auditors annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree), in accordance with the policies and procedures of the Trustee. Further, the Trustee shall prepare and furnish the Adaptation Fund Board with reports on sales of the CERs for the Adaptation Fund and status of commitments and transfers of Trust Fund funds annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree).

Sales of CERs

24. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby authorizes the sale of the CERs from the account established and maintained at the CDM registry for the Adaptation Fund to hold and transfer CERs collected as the share of proceeds to assist in meeting costs of adaptation in accordance with Article 12, paragraph 8 of the Kyoto Protocol (the CDM Account) in the manner set forth hereunder.

25. The sale of CERs from the CDM Account shall be administered under the instructions, direction and guidance of the Adaptation Fund Board consistent with its responsibility to supervise and manage the Adaptation Fund and for the monetization of the CERs.

26. Pursuant to the authority provided under paragraph 3 above, the Adaptation Fund Board may cause to be entered into any and all contracts necessary for the sale of the CERs from the CDM Account by granting to the Trustee any necessary power of attorney on behalf of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, so that the Trustee may execute contracts of

sale with the relevant third party CER purchasers and such other contracts necessary in connection with the sale or the facilitation of the sale of the CERs, at the direction of the Adaptation Fund Board pursuant to paragraph 28 below.

27. Pursuant to the authority provided under paragraph 8 above, and in furtherance of paragraphs 24, 25 and 26 above, the Trustee may, at the direction of the Adaptation Fund Board pursuant to paragraph 28 below, (i) cause the transfer of title to the CERs to the relevant third party purchasers upon receipt of payment in respect of the same, (ii) enter into arrangements with the CDM registry administrator to effectuate such transfers of the CERs, (iii) engage with relevant service providers for the purposes of execution, clearance, settlement and such other logistic matters in connection with the sale or the facilitation of the sale of the CERs, and (iv) take such other actions as are necessary to effectuate sales of the CERs for the benefit of the Adaptation Fund.

28. Sales of the CERs and transfers of title in respect of the same pursuant to paragraphs 24, 25, 26 and 27 above shall be effected by the Trustee only in accordance with the guidelines agreed in writing between the Trustee and the Adaptation Fund Board.

Dispute Resolution; Notices

29. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee shall, to the extent possible, strive to resolve promptly and amicably questions of interpretation and application of the Terms and Conditions and settle any disputes, controversy, or claim arising out of or relating to the Terms and Conditions.

30. Any dispute, controversy, or claim arising out of or relating to the Terms and Conditions, which has not been settled by agreement of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee, shall be submitted to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) in force on the effective date of the Terms and Conditions, and the following provisions: (a) the appointing authority shall be the Secretary-General of the Permanent Court of Arbitration; and (b) the language of the arbitral proceedings shall be English.

31. Any arbitral award under paragraph 30 above shall be final and binding upon the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee. The provisions set forth in paragraphs 29 and 30 above shall be in lieu of any other procedure for the settlement of disputes between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee.

32. Any notice or request required or permitted to be given or made under the Terms and Conditions and any other agreement between any of the parties contemplated by the Terms and Conditions shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, facsimile or, if so designated by the parties, other electronic means, to the World Bank or the UNFCCC Secretariat, in case of the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol, to which it is required or permitted to be given or made at such party's address designated by notice to the World Bank or the UNFCCC Secretariat, in case of the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol, giving such notice or making such request. Deliveries made by facsimile or other electronic transmission shall also be confirmed by mail.

Amendment and Termination

33. Any amendment to the Terms and Conditions shall become effective only upon approval and acceptance by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank.

34. The Trustee's role as trustee servicing the Adaptation Fund under the Terms and Conditions shall be automatically terminated three months after the sixth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, unless the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee affirmatively agree in writing to extend the term of Trustee's services under the Terms and Conditions beyond such date.

35. Notwithstanding paragraph 34 above, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol may at any time terminate the appointment of the Trustee as trustee servicing the Adaptation Fund under the Terms and Conditions. The Trustee's role as trustee servicing the Adaptation Fund shall be terminated three months after receipt by the Trustee of the notice in writing of the termination of the appointment of the Trustee.

36. Notwithstanding paragraph 34 above, the Trustee may at any time terminate its role as trustee servicing the Adaptation Fund, after giving the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol a notice in writing no less than three months prior to any session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. The Trustee's role as trustee servicing the Adaptation Fund shall be terminated immediately after the session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol immediately following notice by the Trustee. In the event that no session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol is held within twelve months after the notice by the Trustee, however, the Trustee's role shall be terminated twelve months after the notice by the Trustee.

37. Following termination of the Trustee's role as trustee servicing the Adaptation Fund pursuant to paragraphs 34, 35 or 36 above, the Trustee shall carry on no business for the Adaptation Fund except for the purpose of winding up its affairs. The Trustee shall take all necessary action for winding up its affairs in an expeditious manner, and for meeting the commitments already made by the Trustee and the transfer of any remaining funds, assets and receipts in the Trust Fund, as directed by the Adaptation Fund Board. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby mandates that in such circumstances the Adaptation Fund Board shall provide such direction to the Trustee without undue delay. All of the powers and rights of the Trustee under the Terms and Conditions, including the right to be reimbursed for the fees, costs and expenses incurred under paragraph 15 above, shall continue until the affairs of the Trustee shall have been wound up.

Effectiveness

38. The Terms and Conditions shall become effective and constitute agreement between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank, upon decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank adopting and accepting the Terms and Conditions.

Annex IV

[ENGLISH ONLY]

**Draft Strategic Priorities, Policies and Guidelines
of the Adaptation Fund****BACKGROUND**

1. The Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) decided in its decision 10/CP.7 that an adaptation fund (the Adaptation Fund) shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol to the Convention (the Kyoto Protocol), as well as activities identified in decision 5/CP.7, paragraph 8. The decision was further endorsed by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) through its decision 28/CMP.1.
2. In decision 5/CMP.2, Parties agreed on guiding principles and modalities. Parties further agreed in decision 1/CMP.3, that the Adaptation Fund Board shall be established as the operating entity of the Adaptation Fund.
3. This document sets out the strategic priorities, policies and guidelines for the Adaptation Fund, developed by the Adaptation Fund Board as requested by Parties in decision 1/CMP.3, paragraph 5 (a).
4. The strategic priorities, policies and guidelines set out in this document form the basis, upon which the operational policies and guidelines shall be developed to enable eligible Parties to access resources from the Adaptation Fund.

STRATEGIC PRIORITIES

5. In accordance with decision 1/CMP.3 paragraphs 1 and 2, the Adaptation Fund shall:
 - (a) Assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation; and
 - (b) Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties.
6. In accordance with decision 5/CMP.2 paragraph 2 (c), projects and programmes funded under the Adaptation Fund should also take 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.
7. In developing projects and programmes to be funded under the Adaptation Fund, eligible Parties should consider the guidance provided in decision 5/CP.7, paragraph 8 and, where necessary, further information included in reports from the Intergovernmental Panel on Climate Change and information generated under the UNFCCC Nairobi work programme.
8. In developing projects and programmes, special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities.

STRATEGIC POLICIES AND GUIDELINES

9. The operational principles and modalities that shall guide the provision of assistance by the Adaptation Fund to eligible Parties shall be consistent with decision 5/CMP.2, paragraphs 1 and 2.
10. Eligible Parties to receive funding from the Adaptation are understood as developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems.
11. Eligible Parties can submit project proposals directly to the Adaptation Fund Board and implementing or executing entities chosen by governments that are able to implement the projects funded under the Adaptation Fund can approach the Adaptation Fund Board directly.
12. Funding for projects and programmes will be on a full adaptation cost basis to address the adverse effects of climate change.
13. Funding for projects and programmes will be available for projects and programmes at national, regional and community levels.
14. Short and efficient project development and approval cycles and expedited processing of eligible activities shall be developed.
15. In assessing project and programme proposals, the Adaptation Fund Board shall give particular attention to:
 - (a) Consistence with national sustainable development strategies, including, where appropriate, national development plans, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist;
 - (b) Economic, social and environmental benefits from the projects;
 - (c) Meet national technical standards, where applicable
 - (d) Cost effectiveness of projects and programmes;
 - (e) Arrangements for management, including for financial and risk management;
 - (f) Arrangements for monitoring and evaluation and impact assessment;
 - (g) Duplication with other funding sources for adaptation for the same project activity should be avoided; and
 - (h) Moving towards a Programmatic Approach in adaptation is desirable.
16. The decision for the allocation of resources of the Adaptation Fund among eligible Parties shall take into account:
 - (a) Level of vulnerability;
 - (b) Level of urgency and risks of delay;

- (c) Ensuring access to the fund in a balanced and equitable manner;
- (d) Lessons learned in project and programme design and implementation to be captured;
- (e) Securing regional co-benefits to the extent possible, where applicable;
- (f) Maximizing multi-sectoral or cross-sectoral benefits; and
- (g) Capacity to adapt to the adverse effects of climate change.

17. The Adaptation Fund Board may wish to review elements of this strategic priority based on lessons learned.

18. The above strategic policies and guidelines will be further elaborated in the paper on “Provisional operational policies and guidelines for Parties to access resources from the Adaptation Fund”.

Annex V

[ENGLISH ONLY]

Reimbursements of Funds to Parties for Their Contributions Pursuant to Paragraph 27 of Decision 1/CMP.3

1. The Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), in paragraph 27 of Decision 1/CMP.3, (i) invited Parties to finance the administrative expenses for operating the Adaptation Fund (the AF) in an interim phase, until the monetization of the share of proceeds of certified emission reductions (CERs) to meet the costs of adaptation is operational, by making contributions for the AF, and (ii) decided that such contributions shall be reimbursed, if requested, from the monetization of the share of proceeds of CERs, in accordance with procedures and a timetable to be determined by the CMP upon the recommendation of the AF Board.

2. As of 17 November 2008, the governments of Australia, Finland, Norway, Switzerland and the United Kingdom have paid in contributions in the total amount of USD 1,717,357 and additionally, Denmark, France, Japan Sweden and UNEP have pledged USD 1,395,946¹ to cover the administrative costs and expenses of the AF Board and the AF Secretariat in an interim phase. Among those donors, Australia, the United Kingdom and UNEP have requested to be reimbursed for their contributions. Details of the status of the contributions are provided in the table below.

Table: Status of Contributions at 17 November 2008

Donor	Currency	Amount	US Equivalent²		Reimbursement
<i>Fully paid</i>					
Australia	AUD	200 000	191 340	a/	Yes*
Finland	EUR	100 000	155 340	a/	No
Norway	NOK	1 000 000	201 726	a/	No
Switzerland	CHF	200 000	178 651	a/	No
United Kingdom	GBP	500 000	990 300	a/	Yes*
Total fully paid			1 717 357		
<i>Pledged</i>					
1. Denmark	DKK	3 000 000	504 202	b/	No
France	USD	150 000	118 750		No
Japan	USD	13 093	13 093		To be discussed
Sweden	SEK	2 100 000	259 901		
UNEP	USD	500 000	500 000		Yes*
Total pledged			1 395 946		
TOTAL			3 113 303		

¹ As of 17 November 2008, draft administration agreements with Denmark, France, Japan and Sweden are in the process of being finalized.

² a/ represents actual United States dollars purchased after payment by the donor.

b/ represents United States dollar equivalent using exchange rates available as of 17 November 2008.

The governments of Australia and the United Kingdom and UNEP have requested that the reimbursements of their contributions to the Adaptation Fund be contributed to a climate change fund under the UNFCCC.

The governments of Australia and the United Kingdom and UNEP have requested that the reimbursements of their contributions to the Adaptation Fund be contributed to a climate change fund under the UNFCCC.

3. As of 11 August 2008, 180.2 million CERs³ have been issued, and 3.6 million CERs⁴ are held in the AF account in the CDM registry (the AF CDM Account).⁵ As a reference, the current price of CER futures contracts with the December 2008 maturity is around \$19 per ton. If the market for spot CERs develops as expected, and if the spot CER price in 2009 is in line with its current futures level, it should be possible to execute sales in line with the liquidity of the market which would provide the Adaptation Fund with the amount needed to reimburse contributions within six months after the start of monetization. If the liquidity on the exchanges is not sufficient, an over-the-counter spot transaction could be executed.⁶

4. Accordingly, it is suggested that the AF Board recommend to the CMP that the contributions made by the Parties and requested to be reimbursed pursuant to paragraph 27 of Decision 1/CMP.3 shall, be reimbursed as follows:

Subject to the availability of funds, as determined by the Adaptation Fund Board based on the advice of the Trustee, the contributions shall be reimbursed to the relevant Parties within six months of the commencement of CER monetization for the Adaptation Fund.

Should available funds not be sufficient, the Adaptation Fund Board will determine the subsequent timeline for reimbursement.

³ http://cdm.unfccc.int/Issuance/cers_iss.html, retrieved August 11, 2008.

⁴ <http://cdm.unfccc.int/Issuance/SOPByProjectsTable.html>, retrieved 11 August 2008.

⁵ See paragraph 32 of AFB/B.2/9, which provides the estimated total possible amount of CERs to be issued by the CDM would be in the region of 2.5 billion tons to 1.5 billion tons by 2012. The estimated amount of CERs to be allocated to the AF would therefore be around 32 million CERs, which would be spread over the 2008-2012 period.

⁶ See paragraph 53 of AFB/B.2/9.

Annex VI

[ENGLISH ONLY]

Role and Responsibilities of the Adaptation Fund Board

1. The Adaptation Fund Board (the Board) is the operating entity of the Adaptation Fund; it shall be responsible for the supervision and management of the Adaptation Fund, and shall be fully accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.
2. The Board shall act in a manner that is consistent with the functions assigned to it by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.
3. The Board shall develop strategic priorities, policies and guidelines, and recommend their adoption to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
4. The Board shall develop and decide on specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, in accordance with decision 5/CMP.2, and report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
5. The Board shall approve the Adaptation Fund project cycle, including guidelines for the preparation of project proposals and eligibility criteria for implementation of such projects.
6. The Board shall develop and periodically review operational criteria based on the key principles listed in Decision 5/CMP.2 to ensure that:
 - (a) A share of the proceeds from certified project activities is used to cover the administrative expenses, as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
 - (b) Access to the Fund is in a balanced and equitable manner for eligible countries;
 - (c) Transparency and openness exists in the governance of the Fund;
 - (d) Funding is on full adaptation cost basis of projects and programmes to address the adverse effects of climate change;
 - (e) The Adaptation Fund operates under the authority and guidance of and is 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;
 - (f) There is accountability in the management, operation, and use of funds;
 - (g) There is no duplication with other sources of funding for adaptation; and
 - (h) There is efficiency and effectiveness in the management, operation, and governance of the fund.
7. The Board shall develop and periodically review operational modalities for the Fund, consistent with the following modalities, as provided in Decision 5/CMP.2:

- (a) Funding for eligible Parties will be available for national, regional and community level activities;
 - (b) Facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities;
 - (c) Projects should be country driven and should clearly be based on needs, views and priorities of the 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;
 - (d) Funding shall be available for concrete adaptation projects and programmes in eligible countries;
 - (e) Ability to receive contributions from other sources of funding;
 - (f) Competency in adaptation and financial management;
 - (g) Sound financial management, including the use of international fiduciary standards;
 - (h) Clearly defined responsibilities for quality assurance, management and implementation;
 - (i) Independent monitoring, evaluation and financial audits; and
 - (j) Learning by doing.
8. The Board shall ensure that projects receiving assistance from the Adaptation Fund Board are designed to achieve sustainable development objectives in accordance with applicable national criteria.
9. The Board shall develop criteria based on principles and modalities listed in Decision 5/CMP.2 to ensure that the executing entities have the capacity to implement the administrative and financial management guidelines of the Adaptation Fund;
10. The Board shall decide on projects, including the allocation of funds, in line with the Adaptation Fund principles, criteria, modalities, policies and programmes, in accordance with decision 5/CMP.2;
11. The Board shall develop and agree on rules of procedure for the Board that are additional to those included in Decision 1/CMP.3 and recommend them for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
12. The Board shall monitor and review implementation of the operations of the Adaptation Fund, including its administrative arrangements and expenditures incurred under the Adaptation Fund, and recommend decisions, as may be appropriate, for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
13. The Board shall establish committees, panels and working groups, if required, to provide, inter alia, expert advice, to assist the Adaptation Fund Board in the performance of its functions;
14. The Board shall draw upon and make use of the expertise that the Adaptation Fund Board may require to perform its functions;
15. The Board shall regularly review performance reports on implementation and ensure independent evaluation and auditing of activities supported by the Adaptation Fund;
16. The Board shall develop and approve the role and responsibilities of the Secretariat.

17. The Board shall review and approve the administrative budget of the Secretariat and request periodic financial and performance audits of the Secretariat and of the implementing and executing entities with regard to activities supported by the Fund;
18. The Board shall develop and approve draft legal and administrative arrangements for secretariat services and the trustee for approval by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
19. The Board shall provide guidance to the Trustee for the discharge of its role and responsibilities in accordance with the terms and conditions set out in the legal arrangements concluded between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee.
20. The Board shall be responsible for the monetization of certified emission reductions issued by the Executive Board of the Clean Development Mechanism and forwarded to the Adaptation Fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, in order to:
 - (a) Ensure a predictable revenue flow for the Adaptation Fund;
 - (b) Optimize revenue for the Adaptation Fund while limiting financial risks;
 - (c) Be transparent and monetize the share of the proceeds in the most cost-effective manner, utilizing appropriate expertise for this task; and
 - (d) Report annually to the CMP on the monetization of CERs.
21. The Board shall report on its activities at each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
22. The Board shall ensure that appropriate legal agreements are in place with the Implementing Entities and Executing Agencies, as necessary.
23. The Board shall include in its work plan for the period up to the fourth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, *inter alia*, those functions identified in paragraphs 3, 4, 9, 11, 18 and 20 above in order for the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to adopt or take note thereof.
24. The Board shall revise this document, as may be necessary, in order to reflect any new roles or responsibilities assigned to the Board by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.
25. The Board shall meet pursuant to the rules of procedure of the Board, approved by the Conference of the Parties meeting as the Parties to the Kyoto Protocol.

Annex VII

[ENGLISH ONLY]

Role and Responsibilities of the Adaptation Fund Secretariat

1. Secretariat services shall be provided to the Adaptation Fund Board in order to support and facilitate its activities.
2. Decision 1/CMP.3 invited the GEF Secretariat to provide secretariat services to the Adaptation Fund Board on an interim basis.
3. The Secretariat shall:
 - (a) As a dedicated team of officials, provide secretariat services to the Adaptation Fund Board in a functionally independent and effective manner;
 - (b) Manage the daily operations of the Fund and report to the Adaptation Fund Board;
 - (c) Assist the Board in developing strategies, policies and guidelines for the Fund;
 - (d) Ensure timely implementation of the decisions of the Board;
 - (e) With respect to the day to day functioning of the Fund, act as liaison between the Board and Parties and implementing and executing entities;
 - (f) Make arrangements for the meetings of the Board, including issuance of invitations and preparation of documents and reports of meetings and provide a Secretary of the Board meeting;
 - (g) Develop the work programme and annual administrative budget of the Fund and submit them for approval by the Board;
 - (h) Ensure the implementation of Adaptation Fund operational policies and guidelines developed by the Board through, inter alia, the development of a project cycle based on criteria to be adopted by the Board;
 - (i) Operationalize the project cycle by:
 - (i) undertaking initial review and screening of project proposals to assess conformity with guidelines approved by the Board,
 - (ii) presenting project proposals for Board approval,
 - (iii) monitoring implementation of progress, and
 - (iv) periodically reporting to the Board on portfolio performance;
 - (j) (Coordinate the formulation and monitor the implementation of projects, ensuring liaison with other bodies as required;
 - (k) Liaise as appropriate, with the secretariats of other relevant international bodies;
 - (l) Provide the Trustee with all relevant information to enable it to carry out its responsibilities, consistent with the decision 1/CMP.3 and the decisions of the Board;

(m) Provide services to ensure and facilitate proper communication with parties;

(n) Perform any other functions assigned to it by the Board.

4. The head of the secretariat responsible for rendering the services shall be accountable to the Adaptation Fund Board.

Annex VIII

[ENGLISH ONLY]

Summary of the Meeting of the Monetization Committee**Summary:**

The Meeting of the Monetization Committee took place on 4 September 2008. The meeting was attended by: Richard Muyungi (Chair), Anton Hilber, Merlyn Van Voore, Brennan Van Dyke, Susan McAdams, Jonathan Caldicott and Johannes Kiess.¹

The call focused on the options to be Presented to the Adaptation Fund Board regarding monetization of CERs. The following conclusions were reached:

1. **Two Step Approach:** In general, the participants agreed on Presenting a two step monetization approach to the Adaptation Fund Board at its Third Meeting: First, the trustee would explore arranging an over-the-counter sale with either Annex I Parties or a broader range of buyers through dealers. This one-time event would signal that the Adaptation Fund monetization program has been launched. Second, after this launch event, the trustee would monetize the Adaptation Fund's CERs according to guidelines expected to be approved by the Adaptation Fund Board at its next meeting.
2. **Transactions Costs:** Further to discussion of this issue during the August 28, 2008 conference call, the invited Trustee confirmed that a precise estimate of transactions costs would be difficult to provide. In general, over-the-counter sales via dealers might attract higher transaction costs as compared to sales to Annex I Parties, but would offer broader participation.
3. **Scope of initial CER monetization:** The Board would need to agree whether or not to extend the inaugural sale of AF CERs beyond Annex I Parties. Approval would also be sought on the amount of CERs to be monetized during the initial exercise. The Trustee indicated that monetizing the large majority of CERs in the AF account might be advisable reserving an amount of 5-10% of CERs in the account to facilitate subsequent sales.
4. **Next Steps:** The invited Trustee will prepare a Presentation for the upcoming Board meeting outlining to the Board the two-step approach discussed.

¹ Ermira Fida, Luis Paz Castro, Amjad Abdulla, Farrukh Khan and Alejandro Nieto were available at the time of the teleconference, but absent due to technical and other difficulties.

Annex IX

[ENGLISH ONLY]

Roles and Responsibilities of Implementing and Executing Entities**BACKGROUND**

1. In accordance with Decision 1/CMP.3, paragraphs 3 and 4, the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol decided that the Adaptation Fund Board would be the operating entity of the Adaptation Fund. The Board was established to supervise and manage the Adaptation Fund and to decide on its overall policies. In this context, this document provides clarification of the terms implementing and executing entities, and identifies the roles and responsibilities of these entities.

DEFINITIONS

2. Implementing Entities are organizations that are designated *ex ante* by the Board as eligible to assist Parties to prepare and implement projects and programs receiving assistance from the Fund. Such entities must have organizational structures and systems competent to adhere to Board-approved fiduciary and other standards.

3. Executing entities are legal entities chosen by an eligible Party to prepare and implement projects receiving assistance from the Fund. Executing Entities can access Fund resources directly or through an Implementing Entity.

PROJECT PREPARATION AND SUBMISSION

4. Implementing and Executing Entities shall assist eligible developing country Parties that are particularly vulnerable to the adverse effects of climate change with the identification, preparation, and implementation of concrete adaptation projects and programs that are country driven and based on the needs, views and priorities of eligible Parties to adapt to the adverse effects of climate change.

5. In accordance with paragraph 29 of Decision 1/CMP.3, any project and/or program proposal must be submitted by an eligible Party, either through a legal entity identified as an Executing Entity by the Party, or through an organization designated as an Implementing Entity by the Adaptation Fund Board, and must meet the criteria and follow the procedures set out in the operational policies and guidelines adopted by the Adaptation Fund Board.

6. All project and program proposals submitted to the Fund shall be endorsed by the relevant UNFCCC national focal points.

PROJECT EXECUTION

7. Implementing and Executing Entities shall ensure quality in their operations and are responsible for preparing and implementing projects and programs according to the principles and modalities applied to the operations of the Adaptation Fund, as established by the Board.

8. The Implementing and Executing Entities shall adhere to all modalities and formats required by the Secretariat to operationalize the decisions of the Adaptation Fund Board.

9. The Implementing and Executing Entities are responsible for the management, operation, and use of funds for projects and programs approved by the Adaptation Fund Board.
10. The Implementing and Executing Entities shall ensure appropriate monitoring and independent evaluation of all activities related to projects and programs funded by the Adaptation Fund, and shall provide the necessary financial information to enable independent financial auditing as referred to in paragraph 12.
11. Implementing and Executing Entities shall submit to the Secretariat annual progress reports on all Adaptation Fund financed activities approved by the Board and under their implementation.

ACCOUNTABILITY

12. Implementing and Executing Entities will be accountable to the Adaptation Fund Board and projects and programs under their supervision will be subject to performance management and supervisory systems, based on fiduciary standards to be established by the Adaptation Fund Board, including independent financial audits.
13. If an Executing Entity works through an Implementing Entity, then the Implementing Entity is accountable to the Board for meeting the Board-approved fiduciary and other standards.
14. If an Executing Entity accesses Fund resources directly, then the Executing Entity is directly accountable to the Board for meeting the Board-approved fiduciary and other standards, and, therefore, will be subject to performance management and supervisory systems to be established by the Board.¹

¹ For example, at the Global Fund to Fight AIDS, Malaria and Tuberculosis, Local Fund Agents located in countries or in the region, selected through a competitive bidding process, provide to the Fund a range of independent program performance and supervisory services to monitor grant recipients. These include: (i) upstream review to assess the potential grant recipient's capacity to implement the grant; (ii) site visits to monitor implementation performance and verify results; (iii) inputs for decisions regarding continuation of grant; (iv) review at grant closure; and (v) ad-hoc assignments, including investigations related to suspected misuse of funds.