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SUBSIDIARY BODY FOR IMPLEMENTATION

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Nairobi, 6–14 November 2006

Item 6 of the provisional agenda

Financial mechanism (Kyoto Protocol)

Adaptation Fund

Information on issues contained in the annex to the Subsidiary Body for Implementation conclusions on the Adaptation Fund

Submissions from relevant international institutions

1. At its twenty-fourth session, the Subsidiary Body for Implementation (SBI) invited relevant international institutions, including, among others, those contained in document FCCC/SBI/2006/11, annex II, without prejudice to any institution, to submit to the secretariat, by 4 August 2006, information on issues referred to in document FCCC/SBI/2006/11, annex II, and taking into account views expressed by Parties, including those contained in documents FCCC/SBI/2006/MISC.7 and Add.1 and FCCC/SBI/2006/MISC.11.
2. The SBI requested the secretariat to compile information referred to in paragraph 1 above in a miscellaneous document for consideration at its twenty-fifth session.
3. The secretariat has received three such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

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

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PAPER NO.1: GLOBAL ENVIRONMENT FACILITY

ANSWERS TO QUESTIONS SUBMITTED BY THE G77 AND CHINA TO THE UNFCCC ON THE
ADAPTATION FUND

(Prepared by the Global Environment Facility Secretariat)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COP/MOP may provide additional guidance to distinguish between the objectives and activities of the two funds.

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

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

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

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

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

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

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

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

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

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

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

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

22. Consistent with GEF experience with the conventions for which it serves as a financial mechanism, COP/MOP guidance provided to the GEF will be reflected in the operational policies

and guidelines for the AF. The GEF will report to the COP/MOP on how the guidance is implemented.

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

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

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

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

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

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

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

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

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

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

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

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

(a) provide, within six months following the end of each IBRD fiscal year, a management assertion, together with an attestation from the IBRD’s external auditors concerning

the adequacy of IBRD's internal controls over financial reporting for trust funds as a whole – the cost of such attestations shall be borne by the IBRD;

(b) or, the IBRD as Trustee can cause the annual financial statement prepared by IBRD with respect to the AF to be audited by IBRD's external auditors and shall forward a copy of such auditors' report to the Council. The Trustee would deduct the cost of such auditors from the AF.

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

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

Would you propose to mobilize additional funds and how?

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

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

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

PAPER NO. 2: MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE
MONTREAL PROTOCOL

REPLY OF THE MULTILATERAL FUND
TO THE REQUEST FOR INFORMATION ON ISSUES
CONTAINED IN THE ANNEX TO THE CONCLUSIONS OF SBI 24
ON THE ADAPTATION FUND (DOCUMENT FCCC/SBI/2006/L.18)

1. In response to the request from the UNFCCC Secretariat to submit information on issues raised in the annex to the conclusions of SBI 24 on the adaptation fund (FCCC/SBI/2006/L.18), the Executive Committee requested the Multilateral Fund Secretariat to respond to the invitation by the Subsidiary Body for Implementation of the United Nations Framework Convention on Climate Change for information on the Multilateral Fund, in line with the information already provided, attaching the full text of Article 10 of the Montreal Protocol.
2. The detailed reply to the specific issues raised follows closely the structure of the annex to the conclusions of SBI 24 regarding the adaptation fund. A copy of Article 10 of the Montreal Protocol is attached.

I. Institutional arrangements to manage the Adaptation Fund

**A. Possible principles and criteria to be followed by an institution managing the
Adaptation Fund**

Overarching principles

(a) *Have ability to work under the authority of, and be able to adhere to the guidance to be provided by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;*

3. The MLF is operating under the authority of the Parties to the Montreal Protocol, who decided on its overall policies. In addition, the governing body, namely the Executive Committee (ExCom) was established by the Parties to develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements. The members of the ExCom are selected on the basis of a balanced representation of the Parties operating under paragraph 1 of Article 5 and of the Parties not so operating (see paragraph 5 of Article 10).

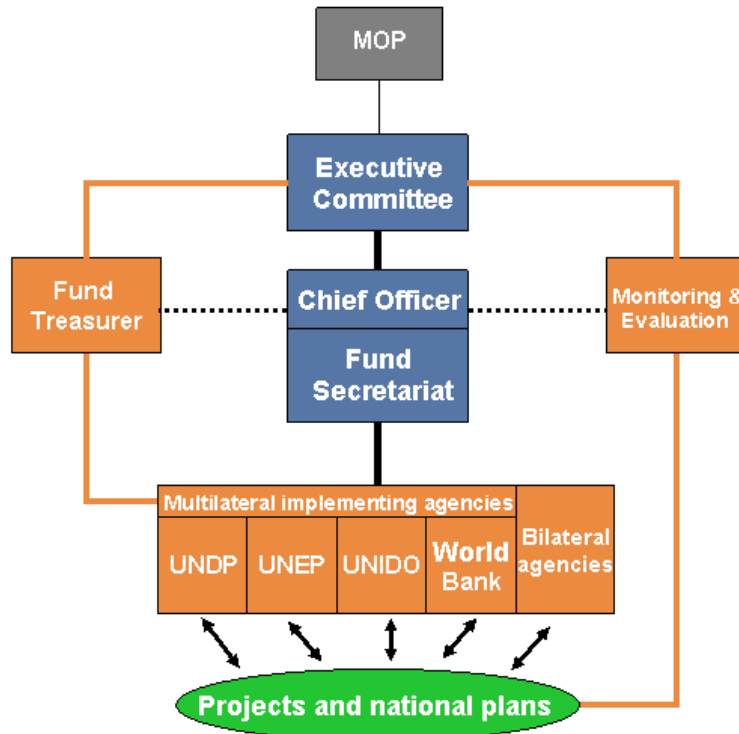
(b) *Be flexible enough to take account of the adaptation needs of the developing countries that are Parties to the Kyoto Protocol;*

4. The MLF has optimized its policies to achieve the objective under the Montreal Protocol in each country. The support is based on a need assessment of each country operating under paragraph 1 of Article 5, i.e. 141 developing countries (Article 5 Parties). The equity principle of the fund aims to provide a similar opportunity for all countries to achieve compliance. The MLF has proven capable of adapting rapidly to new circumstances through strong policy development capacities. It has also been a principle of the operation of the fund to be responsive to Parties' expressed goals and objectives. Related requests are typically adhered to within a very short time frame. There are no operational procedures that reduce the flexibility of the Executive Committee to fulfill its mandate.

(c) *Have a democratic and transparent system of governance, and ensure that, for the administration of the fund, a voting system that allows one vote for one party is in place;*

5. The existing governing structure of the MLF is depicted in Graph 1. The ExCom consists of seven Article 5 Parties and seven non-Article 5 Parties, ensuring that neither developed nor developing countries dominate decision-making. Each member of the ExCom can co-opt more countries from the same region. The resulting increased participation leads to closer co-ordination and cooperation. The members of the ExCom are formally endorsed by the Meeting of the Parties. The Chair and vice Chair are elected from the ExCom members, subject to annual rotation between the groups of Parties mentioned above. Decisions could be taken by a two-thirds majority of the members, representing a majority of the Parties of each of the two groups; moreover, all decisions to-date have been taken by consensus.

Graph 1: Present governance of the MLF



Country-driven approach

(a) *Follow a country-driven approach (decision 28/CMP.1);*

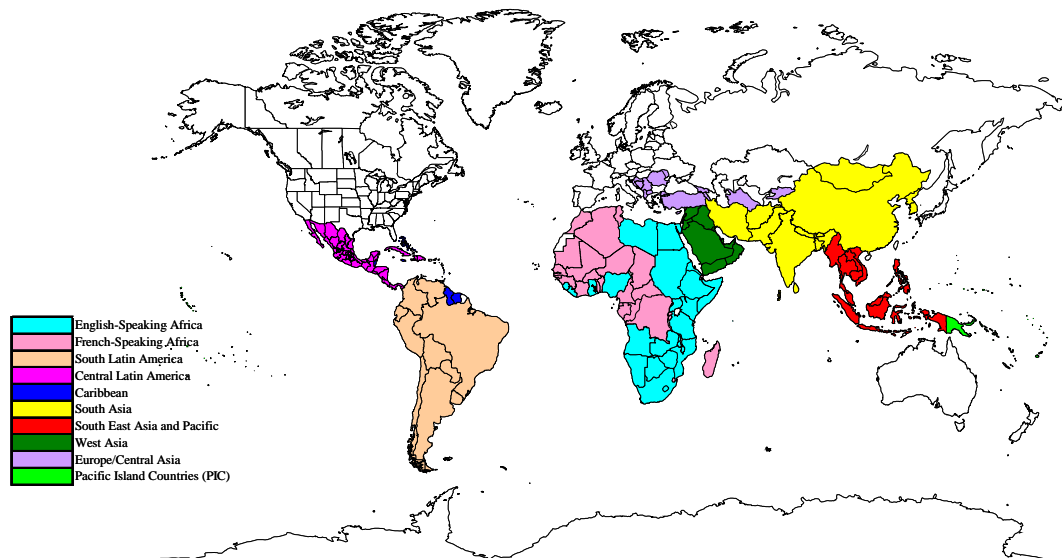
6. The MLF follows a country driven approach. Country ownership is facilitated through the support from the MLF for National Ozone Units. Country programmes, i.e. national strategies are developed with support of the Multilateral Fund, and are reviewed and discussed by ExCom. National plans and other projects are prepared by the countries with support from implementing agencies, to facilitate compliance through a variety of activities. Resources under the MLF are only disbursed with the concurrence of the beneficiary Party.

(b) *Be responsive to the needs and views of developing countries;*

7. The MLF has established procedures to assess the needs for support for each country to reach the objectives of the Montreal Protocol.

8. The views of developing countries can be expressed through their participation in the MOP and in the ExCom. To ensure full participation of the governments in the project preparation process, all projects are submitted with endorsement letters from the government, and national plans are in addition based on a direct agreement between the ExCom and the Government of the country concerned. The support for the 141 National Ozone Units, which are the national focal points for the Montreal Protocol, and the ten regional networks facilitating south-south co-operation and contacts with the implementing agencies and the MLF Secretariat, further ensures that needs and views of developing countries are known and responded to. A map depicting the countries and regional networks is shown in Graph 2. Other relevant points were also covered above at “a” under the country driven approach, and below under Modalities for operations/reporting/conduct of business (a) and (b).

Graph 2: Article 5 countries and their regional networks



(c) *Reflect national and/or regional priorities;*

9. The MLF supports the establishment of national strategies and plans based on specific national needs and priorities. The resulting projects are based on task sharing, requiring both the MLF funded activities as well as the government or third party activities to be implemented. The MLF, with a mandate to support compliance under the Montreal Protocol, aims at achieving a sustainable impact in a short period of time. In the context of the Montreal Protocol this lead to focusing on the most efficient means to phase-out Ozone Depleting Substances in each country.

Accountability/Transparency/Fund management/Effectiveness and efficiency/Knowledge and networking capacity

(d) *Be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;*

10. The Parties to the Montreal Protocol authorize the type of activities to be funded through an indicative list of incremental costs¹. The MOP decides on the triennial overall budget of the Fund, elects the members of the ExCom and reviews annually the activities and achievements of the Fund in line with the objectives of the Montreal Protocol. It also provides additional guidance and requests additional actions, both of a specific nature or in more general policy terms.

- (e) *Have separation and independence from the management, procedural arrangements and decision-making process of existing funds under the Convention and the Kyoto Protocol;*
AND
- (v) *Ensure consistency and synergy with activities in related climate change areas;*

11. The MLF has been established under Article 10 of the Montreal Protocol with its own legal personality. There is no link to the management, procedural arrangements and decision-making process of any of the existing funds. In order to facilitate the phase-out of ozone depleting substances in non-Article 5 countries with Economies in Transition (CEITs), the Secretariats of the MLF and the Global Environment Facility (GEF) entered into an agreement to maintain consistency and complementarity of their respective mandates. The Secretariats, being mandated by their governing bodies, agreed to invite each other to observe the meetings of the respective governing bodies, share project data and operational experience, inform each other about existing and proposed policies and strategies and relevant decisions, and consult each other on matters of mutual interest. In this way co-ordination is being achieved between two funding mechanisms working independently and with separate governing bodies on achieving similar objectives.

- (f) *Have separation of accountability and disbursement (separation of quality assurance, implementation and management);*
AND
- (g) *Have independent monitoring and evaluation function;*
AND
- (i) *Have sound financial management and transparency (decision 28/CMP.1);*
AND
- (j) *Have transparent reporting on management of the financial resources;*
AND
- (k) *Have financial management including independent financial audits and minimum international fiduciary standards;*

12. The MLF has a separate trust fund account, maintained by contract through an agreement between the ExCom and UNEP to provide treasury services external to the Fund Secretariat, and to which also unused funds from completed projects and activities are returned within 12 months. As a UN body, the treasury is independently audited and adheres to international fiduciary standards.

13. The status of income and disbursements is published in detailed lists three times per year preceding the Meetings of the ExCom, and updated during the meeting if relevant.

14. There is a clear separation between the treasury functions and the programme and project review, monitoring and evaluation functions located in the Secretariat. The MLF programme accountability is achieved through financial, activity and impact monitoring. The most advanced, performance-based funding model is based on verifiable data and requires independent verification as a precondition for the release of funding tranches. The monitoring is an integral part of the regular operations and provides fast feedback, allowing for timely corrections in implementation of

¹ It should be noted that incremental costs in the Montreal Protocol, contrary to definitions used in some other funds, are defined as the difference between costs under a business-as-usual scenario and those under a changed scenario.

activities if needed. The progress monitoring system reacts to delays in project implementation. A system of agency performance indicators provides additional incentives to agencies.

15. The Senior Monitoring and Evaluation Officer reports directly to the ExCom, and the programme and budget for the evaluation function is approved separately by the ExCom. The evaluation draws not only on the monitoring results and agencies' reports, but also operates a completion reporting system with lessons learned, and carries out thematic evaluations conducted across all implementing agencies.

16. The present set-up both of Treasury services as well as Monitoring and Evaluation has been decided on by the ExCom of the MLF.

(h) Have independent reviews at regular intervals;

17. The MLF has been evaluated three times since its inception by independent institutions, in all cases based on a specific decision of the MOP. Results and recommendations have been forwarded by the MOP to the ExCom with a request for reacting accordingly, and for annual reports on the progress achieved.

*(l) Have separation from other funding sources (decision 28/CMP.1);
AND*

*(m) Be able to create/set up a separate and independent unit to manage the fund, which can produce operational policies for the projects under the fund;
AND*

*(n) Be able to maintain the autonomy of the Adaptation Fund from other funds being administered by the same institution/entity;
AND*

(bb) Have a wider and/or appropriate base/network of organizations, including regional organizations, to serve as implementing agencies with reach at the national level.

18. The MLF uses donor contributions as its source of funding. The three main institutions of the MLF, namely the ExCom, the Fund Secretariat and multilateral implementing agencies, are further strengthened through a number of bilateral agencies. The ExCom approves operational policies and guidelines, endorses a 3-year plan and budget based on the triennial budget agreed by the Parties, approves national strategies and projects and exercises oversight of ongoing projects and programmes. The Secretariat supports the ExCom and is independent from the implementing agencies. It reviews all funding requests, performance and implementation reports prior to consideration by the ExCom, and has independence in developing and proposing operational policies, guidelines and recommendations. The implementing agencies are contracted through agreements between the ExCom and the agencies for the implementation of projects; these agencies are presently UNDP, UNEP, UNIDO and the World Bank, plus several bilateral agencies representing donor governments. Additional agencies can be added to this list if the necessity arises. The use of these implementing agencies allows the use of their existing global networks for programme development and capacity building. In addition, the MLF has established its own network of national units and regional networks referred to above under "Country driven approach" (b) and depicted in Graph 2.

*(o) Have autonomy to enable the use of funds in a flexible and fluid manner;
AND*

*(p) Serve as a catalyst to leverage additional financing;
AND*

(q) Maximize means of funding from other sources;

19. The MLF has significant autonomy on how to use the funds in line with the guidance provided by the MOP.

20. Additional financing is being leveraged in a number of projects. Leveraging of financing in the context of the Montreal Protocol requires additional funding sources to be identified which would support the reaching of the same Montreal Protocol oriented objective.² The additional financing includes external funding of core MLF activities such as regional networks, but also external funding for replacement of ODS-containing equipment beyond direct savings for the beneficiary.³

Effectiveness and efficiency

(r) *Manage effectively and operate expeditiously so that funding is available in a timely manner;*

AND

(s) *Have overall flexible, simple, clear streamlined procedures;*

21. The MLF approves project preparation funding. Once a project has been formulated and submitted in time for one of the three submission deadlines per year, requests are approved typically between eight (for projects below five million dollar) and 14 weeks after the submission.

22. The review process undertaken by the MLF Secretariat is aimed at maximising the efficiency of each individual project, and therefore achieves maximum support for ozone related activities in developing countries with the existing resources. The discussion process with implementing agencies and countries to find the most cost effective and balanced way forward resulted in a difference (i.e. savings) of more than 38% between the funding level requested and that approved for the same activity.

23. The procedures for project preparation, submission, review, implementation and reporting are clear. The system is improving continuously through decisions being used as precedents in the future.

(t) *Have low transaction costs and cost-effective management;*

AND

(u) *Have low administrative cost for the administration of the Fund and handling of projects;*

24. The annual costs of the MLF Secretariat amount to US \$3.2 million for 12 professionals plus support staff, including administrative support, organizing and holding meetings, project review, management and monitoring as well as evaluation and all consultancy services required. In addition, the annual costs for three meetings of the ExCom with full documentation (including translation and interpretation) as well as travel cost for developing country representatives amount to US \$0.8 million, on the basis of a turnover of presently approximately US \$160 million per year. The support costs for the implementing agencies are partly met through a core budget, and partly through a percentage of the turnover, depending on the size of the project. The overall average agency support costs stand at approximately 11% at present.

² This definition differs from definitions used by other funding mechanisms, where projects provide additional resources e.g. for development funding in order to make an activity more environmentally sustainable, and where the leverage is related to the development funding.

³ It has been the principle of the Montreal Protocol and therefore a guiding principle of the MLF to pay only the additional costs for an activity, not the baseline, and not for expenses which can be recovered through subsequent savings.

(w) Have high standards of professionalism;

25. The MLF and its Secretariat adhere to the standards of professionalism required by the UN.

Knowledge and networking capacity

(x) Follow a learning-by-doing approach (decision 28/CMP.1);

AND

(y) Be an existing institutions with an established structure and with proven experience in handling other funds;

AND

(z) Have established knowledge and experience on how to manage a fund;

AND

(aa) Have established knowledge and experience of adaptation activities;

26. The MLF has operated effectively for 15 years, disbursing more than US \$2 billion. Assistance has been provided to 141 developing countries, including capacity building in each one. 82 % of projects approved have been completed. The MLF has focused its work on effective programme and project management, with the predominant portion of the thematic implementation experience being concentrated in its implementing agencies.

27. The MLF has throughout its history followed a learning-by-doing approach. The learning is undertaken by, firstly, conducting demonstration projects in new areas of work, in order to better assess the applicability of approaches. Secondly, projects are continuously monitored in respect of progress and implementation delays, so facilitating learning during implementation. Thirdly, all completed projects are evaluated by the implementers in project completion reports, which are assessed by the evaluation office. Fourthly, both selected ongoing and completed projects are visited by the Senior Monitoring and Evaluation officer and/or additional consultants according to thematic focal areas, allowing comparison of various approaches, conclusions on their effectiveness and recommendations regarding changes. These recommendations are usually transformed into decisions of the ExCom for further implementation.

B. Relation of the governing body of the Adaptation Fund with the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

C. Membership of the governing body of the Adaptation Fund

28. The Montreal Protocol defines in its Article 10 that the Multilateral Fund shall operate under the authority of the Parties who shall decide on its overall policies. The specific responsibilities of the governing body, its composition in general and its membership are specific to decisions of the Parties (see also “Overarching principles” (c) above). It should be noted that the membership in the ExCom is defined in terms of Parties, not as a personal membership.

II. Share of proceeds and other funding

A. Sources of funding for the Adaptation Fund

B. Monetizing the share of proceeds

29. The MLF is financed by contributions from developed countries on the basis of the United Nations scale of assessment. In addition, contributions can be made by countries not Party to the Protocol, and by other governmental, intergovernmental, non-governmental and other sources. The collection of contributions and disbursement of funds is carried out through the treasury services, provided by UNEP, adhering to the international fiduciary standards.

III. Modalities for operations

Reporting/conduct of business

- (a) *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
 - (b) *To hold regular consultations with developing countries outside formal processes;*
30. The ExCom of the MLF has, as one of its functions, to report annually on the activities to the MOP.
31. Members of the Secretariat staff participate in most meetings of the regional networks, allowing for informal exchange and consultations and for specific advice to be provided.

Project cycle

- (c) *To incorporate year-round submission, consideration and approval of adaptation project proposals;*
AND
 - (d) *To use an expedited processing system for [approval of adaptation project proposals] [and] [disbursement of funds];*
AND
 - (e) *To delegate authority to the implementing agencies to commit funds for a project following its own approval procedures while following a central overall approval process;*
32. The issues mentioned in this part of the annex to the conclusions of SBI 24 on the Adaptation Fund relate to specific procedures and process durations of other funding mechanisms and therefore only partly to the MLF. The set-up of the project cycle was left by the MOP to the ExCom to agree. Due to the swift processing and frequent meetings, there has been no need to implement the above mentioned requirements in the MLF context.

Financing and disbursement modalities

- (f) *To avoid the use of the incremental cost concept;*
AND
- (g) *To not have operational procedures that impose conditionalities on project approvals, such as co-financing;*
AND
- (h) *To provide full-cost funding to eligible Parties to meet the additional costs of activities to adapt to the adverse effects of climate change;*
AND
- (i) *To develop a co-financing scale for supporting activities identified by eligible Parties, taking into account their national circumstances;*
AND
- (j) *To arrange that activities, identified by eligible Parties, that are not supported through full-cost funding as described in paragraph (h) above, will be co-financed through the scale referred to in paragraph (i) above;*
AND
- (k) *To use a sliding scale to simplify calculation of fully funded additional costs of adaptation;*

33. The issues mentioned in this part of the annex relate to specific definitions and requirements of other funding mechanisms and therefore only partly to the MLF. The term incremental cost is used in the context of the Montreal Protocol mainly to address the cost differential between a business-as-usual scenario and the adoption of ozone protection technologies, i.e. similar to the term “additional cost” used in the above sub-item “Financing and disbursement modalities” (h).

(l) *To ensure adequate geographic representation in access to Adaptation Fund resources;*

34. The MLF has distributed its resources to all 141 countries according to ODS phase-out requirements for those countries.

Monitoring and evaluation

(m) *To have an independent monitoring and evaluation unit and ensure that its implementing agencies monitor and evaluate the adaptation projects they implement;*

35. The MLF has an independent monitoring and evaluation unit. The Senior Monitoring and Evaluation Officer reports directly to the ExCom, and the programme and budget for the evaluation function are approved separately by the ExCom. The evaluation utilises not only the project monitoring results and agencies’ reports, but also operates a completion reporting system with lessons learned, and carries out thematic evaluations conducted across all implementing agencies (see also reply to issue raised in “Accountability” (g) above).

(n) *To be subject to independent reviews every (###) years;*

36. The MLF has been evaluated three times since its inception by independent institutions, in all cases based on a specific decision of the Parties. Results and recommendations have been forwarded by the MOP to the ExCom with a request for action as relevant, and the ExCom reported regularly on the progress achieved (see also reply to issue raised in “Accountability” (h) above).

IV. Eligibility criteria

V. Priority areas

A. Priority project activities

B. Priority sectors

C. Identification of possible priority project activities

D. Complementarities of fund activities

VI. Institution to manage the Adaptation Fund

37. The Multilateral Fund Secretariat does not have any comments on the sections IV to VI and their sub-items listed above. These are issues primarily for the governments that are Parties to the relevant protocols.

Article 10: Financial mechanism

1. The Parties shall establish a mechanism for the purposes of providing financial and technical cooperation, including the transfer of technologies, to Parties operating under paragraph 1 of Article 5 of this Protocol to enable their compliance with the control measures set out in Articles 2A to 2E and Article 2I, and any control measures in Articles 2F to 2H that are decided pursuant to paragraph 1 bis of Article 5 of the Protocol. The mechanism, contributions to which shall be additional to other financial transfers to Parties operating under that paragraph, shall meet all agreed incremental costs of such Parties in order to enable their compliance with the control measures of the Protocol. An indicative list of the categories of incremental costs shall be decided by the meeting of the Parties.
2. The mechanism established under paragraph 1 shall include a Multilateral Fund. It may also include other means of multilateral, regional and bilateral co-operation.
3. The Multilateral Fund shall:
 - (a) Meet, on a grant or concessional basis as appropriate, and according to criteria to be decided upon by the Parties, the agreed incremental costs;
 - (b) Finance clearing-house functions to:
 - (i) Assist Parties operating under paragraph 1 of Article 5, through country specific studies and other technical co-operation, to identify their needs for co-operation;
 - (ii) Facilitate technical co-operation to meet these identified needs;
 - (iii) Distribute, as provided for in Article 9, information and relevant materials, and hold workshops, training sessions, and other related activities, for the benefit of Parties that are developing countries; and
 - (iv) Facilitate and monitor other multilateral, regional and bilateral co-operation available to Parties that are developing countries;
 - (c) Finance the secretarial services of the Multilateral Fund and related support costs.
4. The Multilateral Fund shall operate under the authority of the Parties who shall decide on its overall policies.
5. The Parties shall establish an Executive Committee to develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources, for the purpose of achieving the objectives of the Multilateral Fund. The Executive Committee shall discharge its tasks and responsibilities, specified in its terms of reference as agreed by the Parties, with the co-operation and assistance of the International Bank for Reconstruction and Development (World Bank), the United Nations Environment Programme, the United Nations Development Programme or other appropriate agencies depending on their respective areas of expertise. The members of the Executive Committee, which shall be selected on the basis of a balanced representation of the Parties operating under paragraph 1 of Article 5 and of the Parties not so operating, shall be endorsed by the Parties.

6. The Multilateral Fund shall be financed by contributions from Parties not operating under paragraph 1 of Article 5 in convertible currency or, in certain circumstances, in kind and/or in national currency, on the basis of the United Nations scale of assessments. Contributions by other Parties shall be encouraged. Bilateral and, in particular cases agreed by a decision of the Parties, regional co-operation may, up to a percentage and consistent with any criteria to be specified by decision of the Parties, be considered as a contribution to the Multilateral Fund, provided that such co-operation, as a minimum:
 - (a) Strictly relates to compliance with the provisions of this Protocol;
 - (b) Provides additional resources; and
 - (c) Meets agreed incremental costs.
7. The Parties shall decide upon the programme budget of the Multilateral Fund for each fiscal period and upon the percentage of contributions of the individual Parties thereto.
8. Resources under the Multilateral Fund shall be disbursed with the concurrence of the beneficiary Party.
9. Decisions by the Parties under this Article shall be taken by consensus whenever possible. If all efforts at consensus have been exhausted and no agreement reached, decisions shall be adopted by a two-thirds majority vote of the Parties present and voting, representing a majority of the Parties operating under paragraph 1 of Article 5 present and voting and a majority of the Parties not so operating present and voting.
10. The financial mechanism set out in this Article is without prejudice to any future arrangements that may be developed with respect to other environmental issues.

Article 10A: Transfer of technology

Each Party shall take every practicable step, consistent with the programmes supported by the financial mechanism, to ensure:

- (a) that the best available, environmentally safe substitutes and related technologies are expeditiously transferred to Parties operating under paragraph 1 of Article 5; and
- (b) that the transfers to in subparagraph (a) occur under fair and most favourable conditions.

PAPER NO.3: UNITED NATIONS DEVELOPMENT PROGRAMME

ADAPTATION FUND
SUBMISSION OF UNDP

1. Introduction

On 13 January 2006, UNDP made a short submission in response to a request by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), by its decision 28/CMP.1. This submission summarized the views of UNDP on possible arrangements for the management of the Adaptation Fund for consideration by the Subsidiary Body for Implementation (SBI) at its twenty-fourth session. At this same session, the SBI invited UNDP, among others, to submit additional information. The sole purpose of this submission is to respond to this request. It is not the intention of this submission to suggest any modality or management arrangement.

UNDP firmly believes that it is the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol alone that has the authority to decide on future modalities and management arrangements for the Adaptation Fund. As already indicated in its submission of January, UNDP is committed to supporting whatever institutional arrangements are decided by the Parties. UNDP is ready to work in partnership with other agencies (such as UNEP with which it is developing a special relationship) and institutions and including under the leadership of the GEF, if the Parties so decide, and in close consultation and collaboration with developing countries to ensure that the implementation of the Adaptation Fund fully meets the expectations of the Parties.

2. Background

As the need to adapt to the unavoidable impacts of climate change has become evident, the UNDP, at the request of developing countries, has initiated a number of activities to support adaptation (including both enhancing adaptive capacity as well as hard measures for adaptations) in such countries. There are already many important lessons learned from this activity and from the work of other international organizations that will be extremely useful as the Adaptation Fund gets under way.

The main lesson learned and put into practice by many is that adaptation to climate change in developing countries is almost never a new, stand-alone action that needs to be done in isolation from other development activities. There are three reasons for this. First, the impacts of climate change are almost always similar to those of existing climatic events or variability, which are already familiar to the affected countries and communities. Second, the vulnerable countries and communities themselves are seldom vulnerable to climatic impacts alone, and thus the climate-related vulnerability is usually compounded by other vulnerabilities (e.g., poverty, lack of education, etc.). Third, the interventions that are likely to help the country or community adapt to future climate change will almost always also enhance coping with other impacts, including short-term climate variability.

Thus, it has been widely accepted already that efforts to enhance adaptive capacity or carry out hard measures for adaptations are best done by linking, incorporating or mainstreaming the climate change adaptation into other ongoing development efforts. Such a nexus or linkage between adaptation to climate change (with its longer-term time horizon) and development reinforces the notion of supporting sustainable development practices (as opposed to short-term development goals only). It is about doing development differently by integrating climate change risks into

sustainable development. Understanding this nexus is particularly important given that the most vulnerable communities to climate change in developing countries are usually also the poorest and most vulnerable to other issues as well as in urgent need of development. Thus, such vulnerable communities are arguably the highest priority for assistance and support from the international community. However, helping these communities effectively is also one of the most difficult tasks under the best of conditions. UNDP is in the process of reinforcing its support to countries and improving its mechanisms of delivering knowledge, support and assistance, particularly to the most vulnerable communities in developing countries, using institutional mechanisms that are able to do so most effectively.

UNDP has also learned that mainstreaming any issue into development (e.g., gender) cannot happen without specifically designed and supported plans and actions, particularly those designed to strengthen institutions and capacities overall in the context of sustainable development. Therefore, in order for developing countries and communities to acquire the adaptive capacity to deal with future climate change and to carry out hard measures for adaptations there will need to be a major and sustained effort focusing on capacity strengthening in the short term and moving on to hard measures for adaptation in the medium term. However, it is now widely accepted that for adaptation to climate change, a major element of capacity strengthening needs to involve a learning-by-doing process, which requires pilot or demonstration projects of concrete adaptation actions as part of the capacity strengthening process.

Adaptation to climate change is a relatively new issue, and research and learning are still at an early stage. Thus it will be necessary to develop the means by which lessons from research as well as experience are gathered quickly and efficiently and then disseminated or imparted effectively to those who most need it. This will necessitate setting up learning and training tools, methods and even institutions within the next two to three years in order to link up and service thousands of adaptation practitioners at all scales in over a hundred developing countries. In order to leverage its extensive presence throughout the developing world, UNDP is in the process of incorporating the area of adaptation into its wide network of knowledge management.

3. UNDP Mandate, Structure and Decision-making Process

UNDP is the UN's global development network, an organization connecting countries to knowledge, experience and resources to help people build a better life. On the ground in 166 countries and with Country Offices in more than 130 countries, UNDP has a presence in all non-Annex I countries. Its network of Country Offices and presence in the regions is backstopped by five regional bureaus, with staff in Headquarters as well as the regions. The regional bureaus are Africa, Asia and Pacific, Arab States, Latin America and the Caribbean and Europe and CIS. UNDP's integrated menu of services includes project operations and finance, service delivery, policy advice and knowledge.

Each region is also backstopped and supported by a network of regional service centres, regional technical facilities and thematic centres in the areas of governance, drylands management and poverty. These facilities are located in Johannesburg, Dakar, Nairobi, Colombo, Bangkok, Oslo, Bratislava, Beirut, Panama, Trinidad and Brasilia. Technical and policy support is also provided through the Bureau for Development Policy and the Bureau for Crisis Prevention and Recovery. The support provided is organized in five practices: crisis prevention and recovery, poverty reduction, democratic governance, HIV/AIDS and environment and energy.

UNDP is the host institution of the UN Resident Coordinator System. The UN Resident Coordinator is responsible for coordinating activities of all UN organizations at the country level. Working with UN Country Teams, the UN Resident Coordinator is responsible for ensuring the most effective use of resources and expertise as well as the most effective impact of the UN system on the ground. UNDP is not a specialized agency. Its value-added is in that it offers cross-sectoral, cross-cutting and integrative approaches to development. UNDP provides policy support in all development sectors. It also provides support to countries so that they can mitigate economic losses, mitigate risk and enhance capacities for crisis prevention and recovery.

UNDP's first line governing body is its Executive Board, with 36 members representing the five regions as well as the donor countries to UNDP. Through its Executive Board, UNDP makes sure that its governance is democratic and transparent. The Executive Board is charged with overseeing that the mandates set by ECOSOC and the General Assembly are carried out

UNDP draws on a network of some 7,000 staff and a wide range of knowledge networks with a membership of approximately 20,000. Through a comprehensive package of services in integrated policy planning and implementation, human resources development, institutional strengthening and civil society and community participation, UNDP's strength is its capacity to mainstream issues into the broader development context. Building on its extensive network of Country Offices, UNDP has developed a large knowledge management network able to capture experience and good practices and to disseminate this knowledge quickly and effectively.

UNDP is the largest UN source for technical assistance for global environment management, including adaptation. Its delivery to date totals approximately \$6 billion (including \$2.5 billion from GEF and MLF and \$3.5 billion of co-financing). UNDP has supported more than 400 large and 1,000 small-scale projects for climate change, with \$638 million from the GEF.

UNDP's climate change programmes include a large array of projects and experience in adaptation. These include:

GEF Enabling Activities:

- Initial National Communications for 100 countries
- Second National Communications for 100 countries
- National Adaptation Programmes of Actions for 29 countries

Demonstration and Pilot GEF Adaptation Projects:

- Adaptation projects in 5 Strategic Priorities
 - Agriculture & Food Security
 - Water Resources & Quality
 - Public Health
 - Climate-related Disaster Management
 - Coastal Zone Development
- Full and medium size GEF projects (18)
- Adaptation activities in 43 countries
 - Africa – 13 countries
 - Asia & Pacific – 18 countries
 - Latin America & Caribbean – 5 countries

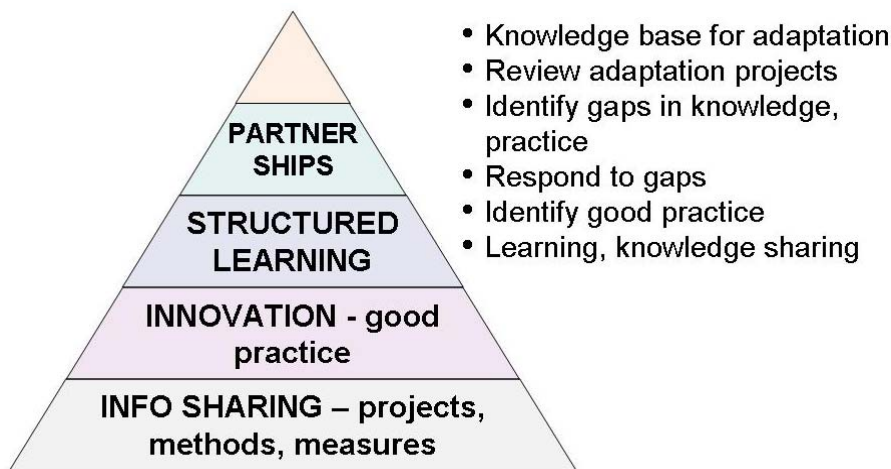
- Eastern Europe & Central Asia – 5 countries
- Arab States – 2 countries
- Sub-national, national, regional, and global projects
 - Basin-scale pilot measures: Pangani (Tanzania), Shire River (Malawi)
 - Policy integration, local to national: Ecuador Water Management
 - Regional adaptation: West African Coastal Management
 - Health Adaptation with global learning component in 7 countries

UNDP Adaptation Programming Tools

- Adaptation programming site
- Tool for project screening
- Guidance for integrating adaptation into national and development agency policies and programmes
- Guidelines for project development

Knowledge Management:

- Adaptation Policy Framework
 - Framework for adapting existing development to climate change
 - New publication of lessons learned underway
- Adaptation Learning Mechanism
 - Knowledge Base for sharing and building on lessons learned



Initial Partnerships

- WHO and Health Impacts of Climate Change
- WFP and Adaptation to Climate Change in Dryland and Arid Areas
- UNESCO, JICA, IUCN and Coastal Zone Management

4. UNDP Fund Management

UNDP manages a large number of global programmes and Trust Funds, including thematic Trust Funds in each of the practice areas and country Trust Funds, including a large Reconstruction Fund Facility for Iraq.

UNDP acts as an implementing agency for a number of global Trust Funds, including the GEF, the MLF and the Global Fund to Fight AIDS, Malaria and Tuberculosis (GFATM). In 2005 alone, UNDP delivered over \$4.2 billion in core and Trust Fund resources.

Because of its immense responsibility to safeguard an increasingly large amount of resources, UNDP has put in place (and keeps strengthening continuously) a robust and state-of-the-art fund management system: a fully integrated system based on Peoplesoft/Oracle; real-time access to information, with versatile reporting (snapshot on request, tailored to donor or programme country, etc.) and soon also external accessibility for transparency.

In addition, UNDP has in place a mechanism for state-of-the-art monitoring and evaluation that can meet a wide range of requirements: project level, programmatic, country-wide, thematic and as per the needs of donors' clients. In addition, a number of efficient operational control mechanisms that have been put in place over recent years provide UNDP with the ability to manage large amount of additional resources with minimal set-up costs as required by new partners and clients.

Because of this capacity, UNDP is continuously being called upon to provide a range of Trust Fund services either as sole manager of the funds (e.g., the thematic Trust Funds in each of the practice areas: environment and energy, democratic governance, poverty reduction, HIV/AIDS and crisis prevention and recovery) or as a joint or pass-through Trust Fund manager that operates in accordance with respective procedures and, most important, with the procedures of the donors. A good example of this last category is the very large Fund Facility for the Reconstruction of Iraq. In addition to its capacity to manage funds, UNDP has also built a large capacity to leverage additional financing and act as catalyst for development activities throughout the world. This leverage capacity was four times that of its core resources in the year 2005. The ability to leverage new resources with on-going development activities has increased considerably over time.

Because of the diverse needs of clients and of programme countries, UNDP has introduced processes that can respond quickly to changing needs and be customized to meet the unique requirements of each fund. In the case of the Adaptation Fund, UNDP would have the capacity to adhere to the guidance provided by the COP/MOP. Through its vast presence in some 166 countries, UNDP would build on its experience and ability to identify and respond to the needs of developing countries and on its commitment to an approach that is country-driven and owned by the countries where UNDP operates.

In the specific area of environment and energy, UNDP manages thematic Trust Funds with resources provided by, among others, Austria, Denmark, France, Germany, Monaco, Netherlands, Norway, the United States and the World Bank. In these, UNDP charges a 5%

cost recovery fee for General Management Services plus the reimbursement for direct costs of the project activities under the category of Implementation Support Services (ISS) as described below..

UNDP's cost recovery has two elements:

- 1) General Management Support that covers general oversight and management functions of HQ and CO Units, including:
 - Project identification, formulation and appraisal
 - Determination of execution modality and local capacity assessment
 - Briefing and de-briefing of project staff and consultants
 - General oversight and monitoring
 - Receipt, allocation and reporting to the donor of financial resources
 - Thematic and technical backstopping through Regional Bureaus
 - Systems, IT infrastructure, knowledge management

- 2) Implementation Support Services that is mostly to cover services provided by Country Offices at the country level and needed to deliver the programmes, including:
 - Payments, disbursements and other financial transactions
 - Recruitment of staff, project personnel and consultants
 - Procurement of services and equipment
 - Organization of training activities, conferences and workshops
 - Travel authorization, visa requests, ticketing and travel arrangements
 - Shipment, custom clearance, vehicle registration and accreditation

ISS are direct costs of the project and as such are not considered as UNDP costs but as the cost of implementing particular activities. As such, these costs are normally agreed between the parties beforehand, based on the scope of support expected from UNDP.

5. Conclusion

UNDP's overarching goal is to help countries reach their Millennium Development Goals (MDGs) by the year 2015. Unfortunately, the effects of climate change will create major obstacles for many countries particularly the Small Islands Developing States and the Least Developed Countries (LDCs) to which we all have a major obligation to help. For them, and for a large majority of others, their capacity to adapt will often mean whether they will be able to reach their MDGs or not. It is the obligation of the international community to do its utmost to give these countries all the support that they need. UNDP is ready to do its part in whatever capacity.

UNDP's strength is its flexibility to work with others in partnership, to work across the various sectors, and in the case of adaptation, to ensure that adaptation to climate change is fully incorporated into other sectors of the economy. Because of its extensive network and presence throughout the developing world, UNDP's strength is also its ability to leverage its

on-gong development work and its work in the National Communications, NAPAs and other climate change work, including its complementary work on mitigation.
