

# The Adaptation Fund

September 24, 2008

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## **ADAPTATION FUND BOARD**

Third Meeting

Bonn, September 15-18, 2008

## **REPORT OF THE THIRD MEETING OF THE ADAPTATION FUND BOARD**

### **INTRODUCTION**

1. The third meeting of the Board of the Adaptation Fund of the Kyoto Protocol was held at the “Langer Eugen” UN Campus in Bonn from September 15 to September 18, 2008. The meeting was convened pursuant to Decision 1/CMP.3 adopted at the third Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).
2. The full list of the Members and Alternates, nominated by their respective groups and elected by the CMP pursuant to decision 1/CMP.3, and present at the meeting, is attached as Annex I to the present report.
3. A list of all participants, including observers present at the meeting, can be found on the Adaptation Fund website at <http://www.adaptation-fund.org/documents.html>.
4. The meeting was broadcast live through a link on the Adaptation Fund website.

### **Agenda Item 1: Opening of the Meeting**

5. The meeting was opened at 9.35 a.m. on Monday, 15 September 2008, by the Chair, Mr. Richard Muyungi (United Republic of Tanzania, Least-Developed Countries), who welcomed the participants to Bonn and thanked the Government of Germany, the Executive Secretaries of the United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Convention to Combat Desertification (UNCCD) for their help in hosting the present meeting. He noted that a number of members and alternates had been unable to attend the present meeting, including the Vice-Chair of the Board, Mr. Naoya Tsukamoto (Japan, Annex I Parties).
6. The Chair informed the Board of the work that he had undertaken during the inter-sessional period, which had included preparing an outline of the report of the Board to the CMP, interviewing candidates for the position of Senior Adaptation Fund Officer at the Secretariat, teleconferencing on the monetization of Certified Emission Reductions (CERs) with the members of the monetization committee and the invited Trustee, and participating in the drafting of the legal arrangements between the CMP and the invited Trustee. The Chair had also helped draft, with the assistance of the Secretariat, several documents for consideration by the meeting.

These included the *Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* (document AFB/B.3/8) and the *Draft Strategic Priorities, Policies and Guidelines of the Adaptation Fund* (document AFB/B.3/9).

7. The Chair, working with the Secretariat, had discussed the issue of further support for the Adaptation Fund Board inter-sessionally with a number of Parties and had consulted with the Executive Secretary of the UNFCCC and the Executive Director of UNEP, as well as, through a letter, the President of the CMP, on the issue of resources to support the activities of the Board. Letters had also been sent to the national focal points for the UNFCCC in that regard. The Chair also thanked the Government of Switzerland and the Executive Director of UNEP for agreeing to provide resources to support the activities of the Board.

8. The Chair reminded the Board that a number of important issues were still pending from its first and second meetings and that it was important to complete that work in order to present tangible outcomes to the fourth CMP. As a result, the Board's priorities at the present meeting were: to conclude the issues outstanding from its second meeting, *inter alia*, the rules of procedure of the Board, the operational policies and guidelines for Parties to access resources from the Fund, the role and responsibilities of the Adaptation Fund Trustee, the legal arrangements for the Trustee, the monetization of certified emission reductions (CERs), and the modalities for direct access to the Adaptation Fund.

## **Agenda Item 2: Organizational Matters**

### *Adoption of the Agenda*

9. The Board considered the proposed agenda contained in document AFB/B.3/1/Rev.1. With the clarification by the Chair that the Vice-Chair of the Board would continue to act in that capacity, though not present at the meeting, the proposed agenda item pertaining to the election of the Vice-Chair was deleted from the agenda of the meeting and the Board adopted the agenda contained in Annex II to the present report.

10. All members and alternates present at the meeting declared that they had no conflict of interest with regard to any item on the agenda.

### *Organization of Work*

11. Following a request for clarification about the placement of observers, the Chair explained that the observers from the UNFCCC would be permitted in plenary while all other observers would watch the proceeding from a separate room.

12. The Board also agreed to follow the practice established at its second meeting in Decision D/AFB/B.2/1 and establish ad hoc groups to further examine any issues during the meeting which could not be resolved in plenary.

## **Agenda Item 3: Report on the Activities of the Secretariat**

13. The representative of the Secretariat thanked the UNCCD secretariat for its logistical and administrative support in hosting the meeting, as well as Ms Julie Waller of the Adaptation Fund

Secretariat, for her help. The representative of the Secretariat also drew the Board's attention to document AFB/B.3/2, which contained a report on the activities undertaken by the Secretariat since the second meeting of the Board. The principal activities had been the preparation of documents for the present meeting, working with the Chair to secure interim financial support for the Adaptation Fund, finalizing and posting of the reports of the first and second meetings of the Board, preparing a draft revised budget for the Board, and interviewing, along with the Chair, candidates for the Senior Adaptation Officer position.

14. Following a discussion, the Board took note of the report on the activities of the Secretariat.

#### **Agenda Item 4: Issues Remaining from the Second Meeting of the Board**

*Role and Responsibilities of the Adaptation Fund Trustee  
and*

*Legal Arrangements for the Adaptation Fund Trustee*

15. The invited Trustee introduced the documents on the draft legal arrangements for the Adaptation Fund Trustee (AFB/B.3/4/Rev.1), and on the draft role and responsibilities of the Adaptation Fund Trustee (AFB/B.3/3), which had previously been considered at the second meeting of the Board as documents AFB/B.2/11 and AFB/B.2/13, respectively, and which had been revised in light of the discussions that had taken place at that meeting. The revised document AFB/B.3/4/Rev.1 also contained the Chair's comments on the text that had been submitted by the invited Trustee for consideration at the meeting of the Executive Directors of the World Bank. The Chair explained the nature of his comments, which were to facilitate the discussion and asked the invited Trustee to do the same.

16. At the request of several members, the invited Trustee undertook to circulate a version of document AFB/B.3/3 that tracked the changes that had been made to the version circulated to all Board members in June. Subsequently the Board agreed to convene Working Group I, with Ms. Ermira Fida (Albania, Eastern Europe), and Mr. Octavio Pérez Pardo (Argentina, Latin America and the Caribbean) as co-chairs to consider the legal arrangement of the Adaptation Fund Trustee and any unresolved issues relating to the role and responsibilities of the Adaptation Fund Trustee.

17. At the invitation of the Chair, the invited Trustee reported on its consultations with the Executive Directors of the World Bank, and the meeting of the World Bank Board on the invitation from the CMP to serve as interim Trustee to the Adaptation Fund. The Executive Directors of the World Bank Board predominantly supported accepting the invitation for the World Bank to act as interim Trustee for the Adaptation Fund, conditioned on several things, *inter alia*, that satisfactory legal arrangements consistent with the Bank's policies and procedures were established, and the Bank was not exposed to financial and reputational risk. The invited Trustee detailed the specific conditions required by the Bank.

18. Following the report by the invited Trustee, the Chair reminded the Board that only one member had provided comments on document AFB/B.2/11 during the inter-sessional period.

19. Ms. Fida, co-chair of Working Group I reported that the working group had discussed the draft legal arrangements for the Adaptation Fund Trustee (document AFB/B.3/4/Rev.1) and had worked through it paragraph by paragraph. She said that at the close of the deliberations of the working group two unresolved issues remained: the comingling of funds for administrative and investment purposes and the operationalization of the direct access provision, including the legal status of the Adaptation Fund, which had been referred back to the invited Trustee and the legal advisor of the UNFCCC secretariat for further elaboration, as it was a cross-cutting issue. She also said that the working group had concluded that it was not expected that there would be any further problems with role and responsibilities of the Trustee once the legal arrangements for the Adaptation Fund Trustee had been resolved.

20. The invited Trustee said that both issues were important to its ability to accept the invitation to act as Trustee.

21. At a subsequent session, Ms. Fida, introduced a revised text of the draft legal arrangements. Following a discussion that examined the nature of the accountability of the Trustee to the Adaptation Fund Board, the Chair invited a legal advisor of the UNFCCC secretariat to explain how the overall authority of the Board had been addressed in the text.

22. The legal advisor of the UNFCCC secretariat explained that paragraphs two, three and four of Annex I of document AFB/B.3/4/Rev.2 clearly indicated that the Trustee would discharge its duties under the authority of the Adaptation Fund Board.

23. The Board also discussed the issue of the comingling of funds by the Invited Trustee and the Chair asked the Invited Trustee to explain the importance of that issue.

24. The invited Trustee explained that a trustee is only authorized to perform those actions that have been provided for in the document governing the trusteeship. It therefore followed that the Trustee would be unable to commingle funds held in the name of the Adaptation Fund with other Funds that it managed for investment purposes unless the Trustee had been given specific permission to do so. While the Trustee could maintain the funds of the Adaptation Fund in a separate investment portfolio, such a portfolio would gain only minimal interest and would incur a substantial cost in addition to the normal operating costs of accounts that were otherwise commingled.

25. Following the explanation of the invited Trustee, the Board decided to adopt the document on the draft legal arrangements for the Adaptation Fund Trustee, as orally amended, as contained in Annex III to the present report.

**(Decision D/AFB/B.3/1)**

26. The Board agreed to continue its deliberations on the role and responsibilities of the Adaptation Fund Trustee at its fourth meeting.

*Rules of Procedure of the Adaptation Fund Board*

27. The Chair introduced the document on the draft rules of procedure of the Adaptation Fund Board (AFB/B.3/5), which had previously been considered at the first and second meetings of the Board as documents AFB/B.1/3 and AFB/B.2/4, respectively. Sections I, II and III of the draft rules had already been approved at those meetings.

28. Following an initial discussion, the Secretariat was asked to provide a version of the document that tracked the changes that had been made to the previous versions of the document. Clarification was also sought regarding the working languages of the Board, as document AFB/B.3/5 contained two opposing statements on that issue.

29. Working Group II, which had been established to consider the legal issues pertaining to the operationalization of the Adaptation Fund under the agenda item 4d, was also mandated by the Chair to review the rules of procedure of the Adaptation Fund Board.

30. At a subsequent session, co-chair of the working group, Ms. Emily Ojoo-Massawa (Kenya, Africa), reported that the deliberations of the working group had been fruitful, and she presented a revised text of the rules of procedure to the Board for its consideration.

31. Following a discussion, it was decided to delete the section on compensation in the rules of procedure as that issue would be better dealt with in a separate decision.

32. The Chair tasked a contact group composed of Ms. Dinara Gershinkova (Russian Federation, Eastern Europe), Mr. Luis Santos (Uruguay, Latin America and the Caribbean) and Mr. Julien Rencki (France, Annex I Parties) to consult on the issue of languages and report back to the Board.

33. At a subsequent session of the Board, the Chair introduced a Chair's text of Draft Rules of Procedure of the Adaptation Fund Board that had been revised in light of the previous discussion of the Board.

34. Ms. Gershinkova also reported on the work of the contact group and introduced an informal paper on the issue of languages.

35. Following a discussion, the Board decided to adopt the draft rules of procedure, as orally amended. The draft rules of procedure, as adopted by the Board, are contained in Annex IV of the present report.

**(Decision D/AFB/B.3/2)**

*Legal Issues Pertaining to the Operationalization of the Adaptation Fund*

36. The Chair introduced the document on legal issues pertaining to the operationalization of the Adaptation Fund (AFB/B.3/6/Rev.1), which had been prepared, in consultation with the Chair, by the invited Trustee, the secretariat of the UNFCCC and the Adaptation Fund Secretariat.

37. The representative of the Adaptation Fund Secretariat explained that a revised version of the text containing an annex which included possible elements for a decision by the CMP would be circulated. She also explained that the innovative practice of direct access presented the Board with a need to find new modalities to meet the responsibilities for ensuring the proper oversight of resources, as well as a need to enter into contracts. The document presented three options. The first option was retaining the *status quo* pending a decision on one of the other two options. The second option was a delegated authority from the CMP to the Adaptation Fund Board to enter into certain contracts on its behalf, while the third option was endowing the Adaptation Fund with legal personality.

38. The representative of the UNFCCC secretariat explained some of the implications of the different options to the Board. On the question of endowing the Adaptation Fund with legal personality, he stated that much depended on whether one wished the Adaptation Fund to act on an international plane or whether the Adaptation Fund only required legal personality in one jurisdiction. The UNFCCC secretariat had consulted with the UN Office of Legal Affairs on which elements should be considered by CMP in endowing the Adaptation Fund with legal personality. The United Nations Office of Legal Affairs had provided its advice and had also recommended that those elements be treated as a package.

39. The representative of the UNFCCC secretariat further stated that the question of whether legal personality and privileges and immunities could be granted by an amendment to the Kyoto Protocol, or by a decision of the CMP, was important, as the legal effect of such a decision by the CMP might be questioned in some jurisdictions. The constitutional arrangements in some States may require explicit treaty provisions, such as an amendment to the Kyoto Protocol or a separate international agreement endowing the Adaptation Fund with legal personality and privileges and immunities, in order to take necessary domestic legislative action. In one case, that of the Multilateral Fund for the Implementation of the Montreal Protocol, that issue had been avoided as Canada, the host country, had taken the necessary legal action to recognize and give effect to the decision of the Meeting of the Parties to the Montreal Protocol to endow the Multilateral Fund with legal personality and privileges and immunities.

40. Several members expressed their concern with the first option, the *status quo*, which would not allow for direct access to the Fund and suggested deleting that option. Members also congratulated the Secretariat of the Adaptation Fund, the invited Trustee and the secretariat of the UNFCCC on their collaboration and urged them to cooperate in a similar way on other issues.

41. Following the initial discussion of the document, the Board agreed to convene Working Group II, with Mr. Farrukh Iqbal Khan (Pakistan, Non-Annex I Parties), and Ms. Ojoo-Massawa (Kenya, Africa) as co-chairs to consider several unresolved issues relating to legal issues pertaining to the operationalization of the Adaptation Fund.

42. At the subsequent session, Mr. Khan, reported that the working group had had extensive deliberations on the legal issues that needed to be resolved for the operationalization of the Adaptation Fund. Document AFB/B.3/6/Rev.1 had presented three options to the Board: retaining the *status quo*, endowing the Adaptation Fund Board with legal capacity to enter into certain legal agreements, and endowing the Adaptation Fund with legal personality. The issue of

the authority of the CMP to enter into private contracts and to delegate that authority to the Adaptation Fund Board had been referred to the UN Legal Department.

43. The co-chair said that a fourth option arose out of the third option, granting legal personality to the Adaptation Fund in a single jurisdiction, following the models of the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Multilateral Fund for the Implementation of the Montreal Protocol.

44. One member said that the crucial issue under discussion centered on the funding risks associated with direct access, which were currently being covered in other multilateral environmental agreements by the use of implementing entities. He said there would be no need for the Fund to seek legal personality if eligible parties were free to choose a legal entity that covered the risks associated with direct access and satisfied international fiduciary standards.

45. The invited Trustee clarified that it would be able to disburse only at the direction of a legal entity or to an implementing entity with legal personality that had been approved by the Board as an implementing entity meeting the criteria set by the Board (including international fiduciary standards and operational and oversight capacity), and that enters into financing agreements for Adaptation Fund projects with executing entities or recipient entities.

46. The chair mandated Mr. Khan and Mr. Biot to consult together to refine the two additional options and to report back to the Board.

47. Following a report by Mr. Khan, the Board agreed, in principle, that endowing the Fund with legal status of some kind deserved further consideration and decided to commission a feasibility study in that regard.

**(Decision D/AFB/B.3/3)**

48. The Board recognized that such an approach was likely to take considerable time. In the meantime, the Board considered an alternative approach which would provide fiduciary risk management oversight through a legal entity established and/or existing at the national level to enable direct access to resources. For that purpose, the Board decided to develop criteria and guidelines for the accreditation with the Board of such legal entities that would enable similar international fiduciary standards to be applied to the execution of adaptation programmes and projects approved by the Board. The fourth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol was requested to take note of the approach presented above.

**(Decision D/AFB/B.3/4)**

#### *Monetization of Certified Emission Reductions (CER)s*

49. A representative of the the invited Trustee from the World Bank Treasury gave a presentation describing the process for monetizing CERs, which had been elaborated together with the CER Monetization Committee of the Board, and was based upon document AFB/B.2/9, which had been presented at the second meeting of the Board. The presentation outlined an

approach that could be taken for the CER monetization programme. The Adaptation Fund Board would approve guidelines which met the CER Monetization Programme objectives of the CMP, and the World Bank, as Trustee of the Adaptation Fund, would operate the CER Monetization Programme according to those guidelines. He also said that the World Bank would submit guidelines for approval at the fourth meeting of the Board. Those guidelines would be based on a three-tier approach that consisted of: a) ongoing mechanistic sales conducted on liquid carbon-exchanges; b) over-the-counter sales through dealers in the case of high CER inventory; and c) further requests for guidance from the Board under exceptional market circumstances.

50. The presentation also proposed two options for the inaugural transaction monetizing the CERs, and outlined the implications of those different options. Once a settlement infrastructure for carbon markets was in place, with the connection made between the Community International Transaction Log (CITL) and the International Transaction Log (ITL), and subject to the legal arrangements between the CMP and the Adaptation Fund Trustee being adopted by the CMP, the initial transaction could take place. It was expected that the CER Monetization Programme could start up as early as January 2009.

51. With respect to questions on the timing of the commencement of the CER Monetization Programme and whether the current resources available to fund ongoing Board activities were sufficient, the Chair explained that, in light of the generous offers of the Government of Switzerland and the Executive Director of UNEP, the Board currently had sufficient resources to operate until January 2009.

52. Following the initial discussion of the document, the Board agreed to convene Working Group III, with Mr. Farrukh Iqbal Khan (Pakistan, Non-Annex I Parties), and Mr. Jerzy Janota Bzowski (Poland, Eastern Europe) as co-chairs to further consider the options for the monetization of CERs.

53. At a subsequent session of the Board, Mr. Khan introduced a revised text for the monetization programme for consideration by the Board.

54. Following a discussion the Board decided:

- a) That the monetization programme should commence as early as practicable, in principle within the first quarter of 2009; and
- b) To request the Trustee to:
  - i) Prepare draft monetization programme guidelines, consistent with paragraph 28 of decision 1/CMP.3, for consideration and approval by the Board at its fourth meeting;
  - ii) Plan a significantly-sized inaugural transaction based on option two as discussed by the Adaptation Fund Board, which would entail including all eligible buyers, execution through dealers, and market clearing prices; and

- iii) Develop a communications strategy for the inaugural transaction, in consultation with the monetization committee, with the support of the Secretariat.

**(Decision D/AFB/B.3/5)**

55. The Board also considered a paper that had been prepared by the invited Trustee on the eligibility requirements for Adaptation Fund CERs and Emission Trading under Article 17 of the Kyoto Protocol (AFB/B.3/13). The Board agreed that there was no need to consider that issue at the present meeting

*Paragraph 22 of the Roles and Responsibilities of the Board*

56. The Board considered document AFB/B.3/7, *Paragraph 22 of AFB/B.2/Rev.3, Role and Responsibilities of the Adaptation Fund Board*. At its second meeting, the Board had adopted AFB/B.2/Rev.3 placing paragraph 22 in square brackets pending further developments (D/AFB/B.2/5). Following discussion, the Board decided to remove the square brackets from paragraph 22.

**(Decision D/AFB/B.3/6)**

*Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*

57. The representative of the Secretariat drew the Board's attention to document AFB/B.3/8, which contained draft provisional operational policies and guidelines for Parties to access resources from the Adaptation Fund. The draft had been circulated at the second Board meeting as document AFB/B.2/8 and had been revised to take into account the views expressed by the Board.

58. Following an initial discussion of the text, the Chair suggested that the document be further considered together with the document AFB/B.3/9, *Draft Strategic Priorities, Policies and Guidelines*, which were taken up under agenda item 5.

**Agenda Item 5: Draft Strategic Priorities, Policies and Guidelines**

59. The representative of the Secretariat introduced document AFB/B.3/9, which contained the draft strategic priorities, policies and guidelines, which had been developed by the Chair in response to guidance that had been previously provided by the Board. In preparing the document the Chair had been guided by decisions 10/CP.7, 5/CMP.2, 1/CMP.3 and 28/CMP.1.

60. Mr. Luis Paz Castro (Cuba, Latin America and Caribbean) drew the attention of the Board to the real effects of climate change that were being experienced in the Caribbean Region and more generally by Small Island Developing States. In particular he highlighted the devastating conditions in his own country, which had recently suffered the effects of two

category 4 hurricanes in less than ten days, as well as two serious tropical storms before that. The estimated costs of the damage suffered by his country were some US\$ 5 billion and he asked the Board to imagine the difficulty that such damage presented for a developing country and what might be the implications of not acting immediately. He said that there was an urgent need for the Board to consider the real effects that climate change might present, even though the relation between climate change and hurricanes had not been sufficiently scientifically confirmed. He also expressed his thanks to those Governments that had offered their support to the people of Cuba. The Chair, followed by all subsequent speakers, expressed their sympathy for the people of Cuba and other nations in the region that had suffered from the effects of recent extreme weather events there.

61. Following the initial discussion of the document, the Board agreed to convene Working Group IV, with Mr. Julien Rencki (France, Annex I Parties), and Mr. Enele Sopoaga (Tuvalu, Small Island Developing States) as co-chairs to further consider both document AFB/B.3/9 and document AFB/B.3/8, which had initially been considered under agenda item 4g.

62. At a subsequent session of the Board, co-chair of Working Group IV, Mr. Rencki introduced a revised text of *Draft Strategic Priorities, Policies and Guidelines* for consideration by the Board.

63. At a subsequent session, the Board considered a revised text of *Draft Strategic Priorities, Policies and Guidelines* and approved the text as orally amended, and as contained in Annex V to the present report. The Board decided to forward the draft strategic priorities, policies and guidelines, as contained in the approved document, to the fourth Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol.

**(Decision D/AFB/B.3/7)**

#### **Agenda Item 6: Status of Adaptation Fund Resources and**

#### **Agenda Item 7: Recommended Revised Budget for the Adaptation Fund Secretariat and Board**

64. A representative of the Secretariat introduced the documents on the status of Adaptation Fund resources (AFB/B.3/10/Rev.1) and on the revised budget for the Adaptation Fund and Secretariat (AFB/B.3/11). He reported that as at August 26, 2008 the Governments of Australia, Finland, Norway and the United Kingdom had paid in contributions that amounted to US\$ 1,538,706.78 and that a further US\$ 351,576.56 had been pledged by the Governments of France, Japan and Switzerland. US\$ 46,161.20 was being returned to the Trust Fund for the Secretariat of the Adaptation Fund by the Trustee and represented 60 per cent of the 5 per cent of the fee being charged by the Trustee. He also explained that those fees only referred to the fees for the Trust Fund for the Adaptation Fund Secretariat and not the fees that the Trustee would charge once the Trust Fund that resulted from the monetization of CERs had been set up.

65. One member drew attention to an error in paragraph 2 of document AFB/B.3/14 on the reimbursements of funds to Parties for their contributions pursuant to paragraph 27 of Decision 1/CMP.3. He explained that Switzerland had not asked to be reimbursed for its contribution. The

invited Trustee noted that the signed Trust Fund Administration Agreement with Switzerland contained reimbursement provisions, but could be amended if so requested by Switzerland. The representative of the Secretariat said that a revised version of document AFB/B.3/14 would be posted on the website of the Adaptation Fund with that correction.

66. The Chair reminded the Board that the invited Trustee had waived its fees for the period before the first two meetings of the Board, estimated at US\$ 377,000, and that those waived fees amounted to a contribution to the Adaptation Fund by the invited Trustee. He also said that pending mutual agreement on the budget of the invited Trustee, the invited Trustee would invoice accrued fees and expenses only after the Trust Fund resulting from the monetization of the CERs had been established and resources were available.

67. The representative of the Secretariat informed the Board that once the additional pledges had been received into the Trust Fund for the Secretariat of the Adaptation Fund, the operations of the Adaptation Fund could continue until the end of 2008. At that point the Trust Fund for the Adaptation Fund Secretariat would still have a positive balance of US\$ 135,425. He also said that further pledges from Japan, approximately US\$ 1 million from the Government of Denmark, US\$ 500,000 from UNEP, and US\$ 150,000 from the Government of France had been made.

68. The Board thanked the Chair for his hard work in soliciting addition support for the work of the Adaptation Fund and expressed its thanks to the donors for their contributions.

69. The representative of the Secretariat also drew the attention of the Board to the revised budget of the Adaptation Fund and Secretariat and explained that until the pledged amounts had been received into the Trust Fund for the Adaptation Fund Board it would not be possible for those amounts to be reflected in a revised budget to detail the expenses of the fourth meeting of the Adaptation Fund Board.

70. On the understanding that the Board would reconsider, inter-sessionally, a revised budget, containing costs for a fourth meeting of the Board, no later than October 15 2008, and that the Board would be advised by October 5 2008 of any difficulties encountered in receiving the pledged amounts, the Board decided to adopt the revised budget, as contained in Annex VI to the present report.

**(Decision D/AFB/B.3/8)**

71. The Board decided to also create an ad hoc committee consisting of the Chair, Mr. Yvan Biot (United Kingdom of Great Britain and Northern Ireland, Annex I Parties) and Mr. Enele Sopoaga (Tuvalu, Small Island Developing States), to revise the budget, with the support of the Secretariat, once the expected contributions had been received.

**(Decision D/AFB/B.3/9)**

72. Following the initial discussion of the document, the Board agreed to convene Working Group III, with Mr. Farrukh Iqbal Khan (Pakistan, Non-Annex I Parties), and Mr. Jerzy Janota Bzowski (Poland, Eastern Europe) as co-chairs to further consider the reimbursement of funds to Parties for their contributions pursuant to paragraph 27 of Decision 1/CMP.3.

73. At a subsequent session of the Board, the co-chair of Working Group III, Mr. Khan introduced a revised text for the reimbursement of funds to Parties for their contributions.

74. A member speaking on behalf of United Kingdom, informed the Board that both Australia and the United Kingdom would not insist on the reimbursement of those funds to their national treasuries but would likely redeploy those funds into other climate change funds under the UNFCCC.

75. Following a discussion the Board decided to 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 be reimbursed as follows:

- a) That subject to the availability of funds, as determined by the Adaptation Fund Board based on the advice of the invited Trustee, contributions shall be reimbursed to the relevant Parties within six months of the commencement of CER monetization for the Adaptation Fund; and
- b) That should available funds not be sufficient at that time, the Adaptation Fund Board will determine the subsequent time line for reimbursement.

**(Decision D/AFB/B.3/10)**

#### **Agenda Item 8: Report of the Adaptation Fund Board to the Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol**

76. The Chair circulated a Chair's text that contained the draft report of the Adaptation Fund Board to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Following a discussion, the Board adopted the draft text as orally amended and decided to allow the Chair to finalize the report in the inter-sessional period and to forward it to the fourth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

**(Decision D/AFB/B.3/11)**

#### **Agenda Item 9: Establishing Board Committees**

77. The representative of the Secretariat introduced document AFB/B.3.12 that presented the draft terms of reference for committees of the Board that had been prepared pursuant to a proposal made by the Chair to the second meeting of the Board to establish standing committees of the Board.

78. Following a discussion of whether such standing committees were presently needed, the Board decided to postpone further consideration of the matter until the fourth meeting of the Board.

**(Decision D/AFB/B.3/12)**

## **Agenda Item 10: Other Matters**

### *Vice-Chair of the Adaptation Fund Board*

79. The Chair expressed his regret that Mr. Naoya Tsukamoto (Japan, Annex I Parties) had informed the Chair that he would resign from the Adaptation Fund Board as of January 1 2009, and that he would no longer be able to serve as Vice-Chair of the Board as of that date.

### *Public Relations Event at the Fourth Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol*

80. The Board requested the Secretariat to prepare a press conference, that would also include a question and answer session and which would be open to the public, to be held on the margins of the fourth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

## **Agenda Item 11: Date and Venue of the Fourth Meeting of the Adaptation Fund Board**

81. The Chair reminded the Board that it had agreed to hold a meeting from 15 to 17 December 2008, back-to-back with the fourth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. The Board decided to hold its fourth meeting on those dates in Bonn at the seat of the UNFCCC.

**(Decision D/AFB/B.3/13)**

## **Agenda Item 12: Adoption of the Report and Closure of the Meeting**

82. The present report, which had been circulated as document AFB/B.3/1/L.1, was adopted, as orally amended.

83. The Chair thanked the Government of Germany, the Adaptation Fund Secretariat, the invited Trustee, and the secretariats of the UNFCCC, and the UNCCD for their help in organizing the present meeting. After the customary exchange of courtesies, the Chair declared the meeting closed at 8.00 p.m. on Thursday, 18 September 2008.

**ANNEX I. MEMBERS AND ALTERNATES PRESENT AT THE THIRD MEETING**

<b>MEMBERS</b>		
<b>Name</b>	<b>Country</b>	<b>Constituency</b>
Ms. Merlyn Van Voore	South Africa	Africa
Mr. Mohammed Al-Maslamani	Qatar	Asia
Mr. Mahendra Siregar	Indonesia	Asia
Ms. Ermira Fida	Albania	Eastern Europe
Mr. Jerzy Janota Bzowski	Poland	Eastern Europe
Mr. Jeffery Spooner	Jamaica	Latin America and the Caribbean
Mr. Luis Santos	Uruguay	Latin America and the Caribbean
Mr. Anton Hilber	Switzerland	Western European and Others Group
Mr. Enele Sopoaga	Tuvalu	Small Island Developing States
Mr. Richard Muyungi	United Republic of Tanzania	Least-Developed Countries
Mr. Julien Rencki	France	Annex I Parties
Mr. Farrukh Iqbal Khan	Pakistan	Non-Annex I Parties

<b>ALTERNATES</b>		
<b>Name</b>	<b>Country</b>	<b>Constituency</b>
Mr. Elsayed Sabry Mansour	Egypt	Africa
Ms. Emily Ojoo-Massawa	Kenya	Africa
Mr. Damdin Davgadorj	Mongolia	Asia
Ms. Tatyana Ososkova	Uzbekistan	Asia
Ms. Dinara Gershinkova	Russian Federation	Eastern Europe
Ms. Iryna Trofimova	Ukraine	Eastern Europe
Mr. Octavio Pérez Pardo	Argentina	Latin America and the Caribbean
Mr. Luis Paz Castro	Cuba	Latin America and the Caribbean
Mr. Amjad Abdulla	Maldives	Small Island Developing States
Mr. Yvan Biot	United Kingdom of Great Britain and Northern Ireland	Annex I Parties
Mr. Bruno Sekoli	Lesotho	Non-Annex I Parties

**ANNEX II****ADOPTED AGENDA OF THE THIRD MEETING**

1. Opening of the Meeting
2. Organizational Matters
  - (a) Adoption of the Agenda
  - (b) Organization of Work
3. Report on the Activities of the Secretariat
4. Issues Remaining from the Second Meeting of the Board:
  - (a) Role and Responsibilities of the Adaptation Fund Trustee
  - (b) Legal Arrangements for the Adaptation Fund Trustee
  - (c) Rules of Procedure of the Adaptation Fund Board
  - (d) Legal Issues Pertaining to the Adaptation Fund
  - (e) Monetization of Certified Emission Reductions (CERs)
  - (f) Paragraph 22 of the Role and Responsibilities of the Board
  - (g) Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund
5. Strategic Priorities, Policies and Guidelines of the Adaptation Fund
6. Status of the Adaptation Fund Resources
7. Revised Budgets of the Adaptation Fund Secretariat and Board
8. Draft Report of the Adaptation Fund Board to the Conference of the Parities Serving as the Meeting of the Parties to the Kyoto Protocol
9. Establishing Board Committees
10. Other Matters
11. Date and Venue of the Fourth Meeting of the Adaptation Fund Board
12. Adoption of the Report and Closure of the Meeting

**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.

[ANNEX 1](#)

**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 comingling of the resources of the Trust Fund for administrative and investment purposes with other trust fund assets maintained by the World Bank. The comingling 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

### DRAFT RULES OF PROCEDURE OF THE ADAPTATION FUND BOARD

#### I. SCOPE

39. 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

40. 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**

41. 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.
42. 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.
43. 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.
44. 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.
45. 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.
46. 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 constituency to replace the said Member for the remainder of that Member's mandate. The Adaptation Fund Board shall request the relevant constituency to nominate the new Member, or the new Alternate.
47. 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

48. 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.
49. 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.
50. 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.
51. 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.

52. 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.

53. 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.

54. 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**

55. 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**

56. 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.

57. 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.

58. 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.

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

60. 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.

61. 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.

62. 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.

63. 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**

64. 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.

65. 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.

66. 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 Compliance Committee 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.”

67. At each meeting, Members and Alternates must declare any conflicts of interest they may have in relation to any items on the agenda.

68. 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**

69. 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.

70. 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.

71. 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.

72. 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**

73. 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.

74. 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.

75. 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**

76. 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.

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

78. 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**

79. 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.

80. 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**

81. 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**

82. Decisions of the Board shall be taken by consensus whenever possible.
83. 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.
84. An Alternate may cast a vote only if acting for the Member in accordance with paragraph 6.
85. 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.
86. 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.
87. 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.
88. The name of each Member shall be called in all roll-calls, and he/she shall indicate the vote (“yes” or “no”) or abstention.
89. Votes cast by each Member participating in a roll-call shall be recorded in the report of the meeting.

### **XIV. TERMINATION OF BOARD MEMBERSHIP**

90. 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.
91. 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.
92. 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**

93. 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**

94. 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.

95. 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.

96. 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.

97. The Secretariat shall inform Member and Alternates about the decision and post all intersessional decisions on the Adaptation Fund website.

## **XVII. LANGUAGES**

98. 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

99. Late meetings, committees and working groups will be held in English when interpretation is not available.

100. Documents for the meetings will be provided in English only.

101. 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**

102. 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 PROTOCOL**

103. 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 V****DRAFT STRATEGIC PRIORITIES, POLICIES AND GUIDELINES OF THE ADAPTATION FUND****BACKGROUND**

104. 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 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.

105. 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.

106. 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).

107. 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**

108. In accordance with decision 1/CMP.3 paragraphs 1 and 2, the Adaptation Fund shall:

- (h) 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
- (i) Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties.

109. 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.

110. 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.

111. 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

112. 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.
113. 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.
114. 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.
115. Funding for projects and programmes will be on a full adaptation cost basis to address the adverse effects of climate change.
116. Funding for projects and programmes will be available for projects and programmes at national, regional and community levels.
117. Short and efficient project development and approval cycles and expedited processing of eligible activities shall be developed.
118. 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.
119. 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.

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

121. 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 VI****REVISED BUDGET OF THE ADAPTATION FUND SECRETARIAT AND BOARD****INTRODUCTION**

122. In the First Meeting of the Adaptation Fund Board the following three budget items were approved: (i) A report on estimated expenses incurred by the Secretariat during the period January 1 to March 31, 2008; (ii) a proposal for a budget for activities of the Secretariat and the Board for the period April 1 to June 30, 2008 for approval by the Board; and (iii) a proposal for a budget for activities of the Secretariat and the Board for the period July 1, 2008 to June 30, 2009.

123. In the Second Meeting of the Adaptation Fund Board, in light of the available resources and received funds, the Adaptation Fund Board approved a revised budget for the period July 1, 2008 to December 31, 2008 for supporting activities of the Adaptation Fund Secretariat and Board, including the cost of one meeting in September and the full costs of the senior adaptation staff manager through June 2010.

124. At that Second Meeting, the most recent expenditure reports were presented for the period January 1 to June 30, 2008. In addition, the Secretariat presented a report on the status of contributions to the Adaptation Fund trust fund for supporting activities of the Adaptation Fund Secretariat and Board.

125. For the Third Meeting of the Adaptation Fund Board reports providing the following information have been prepared:

- (i) The expenses incurred by the Adaptation Fund Secretariat and Board during the period January 1 to June 30, 2008 (Table 1 of this document);
- (ii) The status of contributions to the Adaptation Fund trust fund for supporting activities of the Adaptation Fund Secretariat and Board (presented in a separate document);
- (iii) The revised budget for activities of the Adaptation Fund Secretariat and Board for the period July 1, 2008 to December 31, 2008, including cost of the senior adaptation staff member through June 2010, and taking into account the received contributions and expenditures to date (Table 2 of this document).

**Expenses Incurred by the Adaptation Fund Secretariat and Board: January 1 – June 30, 2008**

126. It is estimated that the Secretariat has incurred \$ **739,142** in expenses to cover the following costs: (i) staff costs to research and prepare documentation for the First and Second Meetings of the Adaptation Fund Board; (ii) travel costs of Board Members and Alternates to participate in the First and Second Meetings of the Board; and (iii) travel costs of Secretariat staff to organize and manage the First and Second Meetings of the Board. **Details are in Table 1.**

**Table 1: Estimated Expenses of the Adaptation Secretariat:  
January 1 to June 30, 2008**

<b>Expenses of the Board &amp; Secretariat for the Adaptation Fund: January 1 - June 30, 2008</b>		
<b>Expense Category</b>		
	<b>Planned</b>	<b>Actual</b>
<b><u>Staff Costs (Salaries and Benefits)</u></b>	<b>135,802</b>	<b>122,438</b>
2 months/year 10 GEF staff:		
<b><u>Travel estimated @ \$9,000 trip</u></b>	<b>648,000</b>	<b>302,319</b>
Consultants	36,000	38,870
5 GEF staff to attend 2 meetings	108,000	71,924
Board - 24 eligible members to attend 2 meetings	432,000	191,525
Committees - 8 members to attend 1 meeting	72,000	0
<b><u>Consultants</u></b>	<b>32,000</b>	<b>75,080</b>
<b><u>General Operations Costs</u></b>	<b>27,908</b>	<b>23,162</b>
Office space, equipment, and supplies		
<b><u>Cost of 2 meetings</u></b>	<b>239,500</b>	<b>216,143</b>
<b>Total</b>	<b>\$1,083,210</b>	<b>\$739,142</b>

**Proposed Budget for Activities of the Adaptation Fund Secretariat and Board: July 1, 2008 to December 31, 2008**

127. The Secretariat estimates a budget of \$ **950,851** to cover costs for all activities of the Board and the Secretariat as follows: (i) staff costs to research and prepare documentation for the Third Meeting of the Adaptation Fund Board in September 2008; (ii) travel costs of Board Members and Alternates to participate in the Third Meeting of the Board in September 2008; and (iii) travel costs of Secretariat staff to organize, manage and follow up on Board decisions from the Third and previous Meetings of the Board during the period July 1, 2008 to December 31, 2008. **Full details of the budget are in Table 2**

128. A Fourth meeting is still planned for December 2008, but could only be held should adequate funds become available to cover the costs of travel and all relevant administrative costs, including preparatory work by Secretariat staff, and the participation costs of Board Members and Alternates.

129. Please note that this request contains a provision of **\$398,370** to cover staff salary for two years in the Secretariat to ensure that a high quality staff member can be recruited on a two-year coterminous contract. The current budget was proposed by the Secretariat and agreed by the Board under the condition that funding for two additional Secretariat staff be a priority once funding were to become available.

130. The Adaptation Fund Board has also decided to provide additional support to the Chair by covering the costs of a limited number of items that are essential in carrying out his duties. These are currently suggested to include the costs of communications including telephone and internet access, as well as the copying of documents, and other costs directly supporting specific activities as Chair. These costs may also include the costs of any missions, as agreed with the Vice-Chair of the Adaptation Fund Board, for the purpose of securing funding for the Adaptation Fund until such time as the Fund receives funds from monetization of CERs. Payments will be made on presentation of relevant receipts and originals of expenditure.

**Table 2. Estimated Expenses of the Adaptation Fund Secretariat and Board:  
July 1, 2008 to December, 2008**  
(includes staff costs for one staff member from July 1, 2008 to June 30, 2010)

<b>Estimated Expenses of the Board &amp; Secretariat for the Adaptation Fund July 1, 2008 - December 31, 2008 (6 months) (includes new Staff Costs through June 30, 2010)</b>	
<b>Expense Category</b>	
<b><u>Staff Costs (Salaries and Benefits)</u></b>	<b>545,739</b>
2 months/year 10 GEF staff (6 months)	147,369
100% 1 Professional-level (24 months)	398,370
<b><u>Travel @ \$7,500 trip</u></b>	<b>217,500</b>
Consultants	7,500
4 GEF staff to attend 1 meeting	30,000
Board - 24 eligible members to attend 1 meeting	180,000
<b><u>Consultants</u></b>	<b>35,000</b>
<b><u>General Operations Costs</u></b>	<b>81,612</b>
Office space, equipment, and supplies	66,612
Support provided to Chair to fulfill duties	15,000
<b><u>Cost of 1 meeting</u></b>	<b>71,000</b>
<b>Total</b>	<b>\$950,851</b>
Available Funds as of August 21	<b>1,426,680</b>
January 1 - June 30, 2008 expenses	<b>739,142</b>
July 1 - December 31, 2008 plan	<b>950,851</b>
Shortfall as of December 31, 2008	<b>(263,313)</b>