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August 30, 2010

Adaptation Fund Board
Eleventh Meeting
Bonn, September 16 - 17, 2010

Agenda item 9

**DRAFT REPORT OF THE ADAPTATION FUND BOARD
TO THE CONFERENCE OF THE PARTIES
SERVING AS THE MEETING OF
THE PARTIES TO THE KYOTO PROTOCOL AT ITS
SIXTH SESSION**

NOTE BY THE SECRETARIAT

1. The present draft report of the Adaptation Fund Board to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol at its sixth session, requested by decision 1/CMP.3, paragraph 5 (l), was prepared by the secretariat.
2. The Board may want to consider requesting the Chair, assisted by the secretariat, to finalize it after the eleventh Board meeting.

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**CONFERENCE OF THE PARTIES SERVING AS THE
MEETING OF THE PARTIES TO THE KYOTO PROTOCOL
Sixth session
Cancun, 29 November –9 December 2010**

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

Report of the Adaptation Fund Board

Note by the Chair of the Adaptation Fund Board*

Summary

This report has been prepared in response to decision 1/CMP.3 requesting the Adaptation Fund Board to report on its activities at each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), and covers the period from December 2009 to September 2010. The Chair will report orally to the CMP at its sixth session on activities carried out from September 2010 to December 2010. It provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of tasks mandated by the CMP, and recommends actions to be taken by the CMP, as appropriate. The report contains, inter alia, a draft decision prepared for approval by the CMP in accordance with decision 1/CMP.4, and information on decisions and actions taken by the Adaptation Fund Board to be noted by the CMP.

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

CONTENTS

		<i>Paragraphs</i>	<i>Page</i>
I.	INTRODUCTION	1-6	5
A.	Mandate	1-2	5
B.	Scope of the note	3	5
C.	Recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixth session	4-6	5-5
II.	WORK UNDERTAKEN DURING THE REPORTING PERIOD.....	7-28	6-7
III.	SUPPORT FOR THE ADAPTATION FUND BOARD AND IMPLEMENTATION OF ITS MANDATE	29-34	9-9

Annexes

I.	Proposed amendments to the terms and conditions of services to be provided by the trustee to the Adaptation Fund	10
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I. Introduction

A. Mandate

1. The Conference of the Parties, at its seventh session, agreed to the establishment of the Adaptation Fund.¹ The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its third session, decided that the operating entity of the Adaptation Fund would be the Adaptation Fund Board, serviced by a secretariat and a trustee².

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

B. Scope of the note

3. This report provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of the mandate from the CMP, and recommends actions to be taken by the CMP, as appropriate. The report covers the period from December 2009 to September 2010.

C. Recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixth session

4. The CMP may wish to take note of the information contained in this report [and consider adopting a draft decision on the amendment to the terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund].

5. The Adaptation Fund Board invites the CMP to take note of the following key actions and decisions, taken in accordance with decision 1/CMP.4, paragraph 10 and 4/CMP.5, paragraph 3, during the reporting period:

- (a) Inception of the accreditation process of implementing entities, including the accreditation of national implementing entities that can access resources from the Adaptation Fund directly;
- (b) Issuance of a call for proposals and approval of funding decisions on adaptation projects and programmes;
- (c) Progress made to confer legal capacity on the Adaptation Fund Board [to be updated in accordance with the info provided by Germany].
- (d) The proceeds from the monetization of Certified Emission Reductions (CERs) reached \$100 million.

¹ Decision 10/CP.7.

² Decision 1/CMP.3, paragraph 3.

6. The Adaptation Fund Board further invites the CMP to adopt a decision on the amendment to the Terms and Conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as trustee for the Adaptation Fund (the Terms and Conditions)³ to extend the services of the World Bank through the Eighth session of the CMP. Unless a decision to amend the Terms and Conditions and extend the services of the World Bank is made by the CMP, and agreed by the World Bank, the Terms and Conditions of the trustee will expire automatically three months after the sixth CMP, i.e. in March 2011. Accordingly, the Adaptation Fund Board at its 11th meeting decided to recommend an extension of the World Bank services as interim trustee servicing the Adaptation Fund under the Terms and Conditions for an additional two years, and is submitting to the CMP for approval a proposed amendment to the Terms and Conditions as contained under Annex I hereto.

II. Work undertaken during the reporting period

7. The Adaptation Fund Board has held three meetings during the reporting period, each of which was convened at the premises of the United Nations Convention to Combat Desertification in Bonn, Germany. The agendas and annotations (including background documentation on the agenda items) and detailed reports of the meetings have been made available on the Adaptation Fund website.⁴

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

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

9. In accordance with decision 1/CMP.3, paragraph 13, the Adaptation Fund Board, at its ninth meeting, elected, by consensus, Mr. Farrukh Iqbal Khan (Pakistan) as Chair and Mr. Hiroshi Ono (Japan) as Vice-Chair of the Adaptation Fund Board.

Changes in composition of the Adaptation Fund Board

10. During the reporting period, a number of members and alternate members of the Adaptation Fund Board have been replaced. Among the members of the Board, the following changes took place: Mr. Selwin Hart (Barbados, Small Island Developing States (SIDS)) was replaced by Mr. Peceli Vocea (Fiji, SIDS). Ms. Merlyn Van Voore (South Africa, African Group) was replaced by Mr. Zaheer Fakir (South Africa, African Group). Mr. Mahendra Siregar (Indonesia, Asian Group) was replaced by Mr. Liucui Zhu (China, Asian Group), who was subsequently replaced by Mr. Wang Zhongjing (China, Asian Group).

11. The following changes took place among the alternate members of the Board: Ms. Dinara Gershinkova (Russia, Eastern European Group) was replaced by Mr. Valeriu Cazac (Moldova, Eastern European Group). Mr. Octavio Perez Pardo (Argentina, GRULAC) was replaced by Mr. Santiago Reyna (Argentina, GRULAC). Ms. Vanesa Alvarez Franco (Spain, Parties included in Annex I to the Convention (Annex I Parties)) was replaced by Ms. Ana Fornells de Frutos (Spain, Annex I Parties). Mr. Yvan Biot (United Kingdom, Annex I Parties) was replaced by Ms. Kate Binns (United Kingdom, Annex I Parties). Mr. William Kojo Agyemang-Bonsu (Ghana, Parties not included in Annex I to the Convention (non-Annex I Parties)) was replaced by Ms. Sally Biney (Ghana, non-Annex I Parties).

³ Decision 1/CMP.4, Annex III.

⁴ <<http://www.adaptation-fund.org>>.

Calendar of meetings of the Adaptation Fund Board in 2010

12. At its ninth meeting, held in Bonn on 23 to 25 March 2010, the Adaptation Fund Board adopted a calendar of meetings for 2010 (see table 1).

Table 1. Calendar of meetings of the Adaptation Fund Board in 2010

Dates	Location
23-25 March	Bonn, Germany
14–16 June	Bonn, Germany
15–17 September	Bonn, Germany
13–15 December	Cancun, Mexico

Workplan of the Adaptation Fund Board

13. The Board, at its tenth meeting, adopted the workplan for the Adaptation Fund Board corresponding to the fiscal year 30 June 2010 – 1 July 2011.

Budget of the Adaptation Fund Board, secretariat and trustee

14. At its tenth meeting, the Adaptation Fund Board considered and approved resources to support the work of the Adaptation Fund Board and its secretariat through 30 June 2011 and the trustee through 31 March 2011 (annex X). The budget requirement projected for the 2011 fiscal year was USD 3,632,347 as at 31 July 2010.

Inception of the accreditation process of implementing entities of the Adaptation Fund

15. Decision 1/CMP.3, paragraph 30, provides that “in order to submit a project proposal, Parties and implementing [...] entities shall meet the criteria adopted by the Adaptation Fund Board [...], in order to access funding from the Adaptation Fund.”

16. In line with the provision referred to above, the Board, at its ninth meeting, considered the recommendations of the Accreditation Panel and approved the accreditation of one national implementing entity (NIE), the *Centre de Suivi Ecologique* (CSE) of Senegal and two multilateral implementing entities (MIE): the United Nations Development Programme and the World Bank. In subsequent meetings, further [redacted] NIEs were accredited: [redacted], as well as [redacted] MIEs.

First sessions of the Adaptation Fund Board committees

17. The Ethics and Finance Committee (EFC) and the Project and Programme Review Committee (PPRC) established by the Board in 2009, held their first meetings back to back with the tenth meeting of the Board. Since then, both committees have scheduled their meetings one day prior to the Board meetings.

Call for proposals and approval of funding decisions on adaptation projects and programmes

18. Decision 1/CMP.4 paragraph 10, “[r]equests the Adaptation Fund Board to start processing proposals for funding projects, activities or programmes, as applicable, and to report back on progress made to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol”.

19. In line with the provision referred to above, the Adaptation Fund Board, at its ninth meeting, decided to issue a call for project and programme proposals from eligible Parties. The Board considered the first project concepts at its tenth meeting. At its eleventh meeting the Board approved [redacted] project proposals for funding for a total amount of US\$ [redacted].

20. The Parties whose project proposals have been approved for funding are: ...

21. Following to the suggestions and requests from the non-governmental organization observers, all project proposals are posted on the Adaptation Fund website as they are received, and a facility to post comments online was made available to interested stakeholders.

Legal capacity of the Adaptation Fund Board

22. At its fifth session, the CMP decided to endorse “the decision of the Adaptation Fund Board to accept the offer of Germany to confer legal capacity on the Adaptation Fund Board”. It also decided to request “the Adaptation Fund Board to consult further with the Government of Germany to conclude the necessary legal arrangements to confer legal capacity on the Adaptation Fund Board, and to report back on progress made to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixth session.”⁵

23. Accordingly, the Board ... [to be completed when Germany provides more information].

Approval of the code of conduct for the Adaptation Fund Board

24. At its tenth meeting, the Adaptation Fund Board approved a code of conduct (annex X) for the implementation of section VII of the rules of procedures, in order to protect Board members and alternates and the staff of the secretariat from conflicts of interests in their participation, identifying cases of conflicts of interest and the related procedures. The code of conduct also applies to the Board advisory bodies, such as the Accreditation Panel.

Results based management framework (RBM) for the Adaptation Fund

25. At its tenth meeting the Adaptation Fund Board adopted an approach to implementing results based management. The Board also adopted a Strategic Results Framework for the Adaptation Fund and an Adaptation Fund Level Effectiveness and Efficiency Results Framework, both delineated in the RBM document. Over the course of fiscal year 2011, the Board has requested the secretariat to take the necessary steps to ensure a robust RBM system is in place. This includes the following: developing a monitoring and evaluation framework; designing a practical guide on how project baselines and project results frameworks may be prepared; drafting guidance for project performance reports; and developing an independent project database.

Resources in the Adaptation Fund Trust Fund

26. The World Bank as trustee has sold 6.6 million CERs since inception of the CER monetization program in May 2009 and generated revenues of US\$ 112.5 million through CER sales as of 31 July 2010. The trustee conducts CER sales through exchange trades on a daily basis as well as through over-the-counter transactions, in order to provide a predictable flow of resources for the Adaptation Fund, consistent with the CER Monetization Guidelines adopted by the Adaptation Fund Board. The trustee has also facilitated donations totalling over US\$ 60 million, in accordance with the Donation Guidelines adopted by the Adaptation Fund Board in November 2009. Net funding availability in the Adaptation Fund Trust Fund as of 31 July 2010 is US\$ 156 million, representing an increase of US\$ 133 million since last reported (30 November 2009).

⁵ Decision 4/CMP.5, paragraphs 1 and 3.

Reimbursements of funds to Parties for their contributions

27. During the fifth Adaptation Fund Board meeting in March 2009, the Adaptation Fund Board authorized the World Bank, as trustee of the Adaptation Fund Trust Fund, to repay the donors who have elected reimbursement of their contribution to the Multi-Donor Trust Fund for the secretariat for the Adaptation Fund Board (the “Administrative Trust Fund”), subject to availability of funds from the initial monetization of CERs. As of 31 July 2010, the trustee has reimbursed US\$ 500,000 to the United Nations Environment Programme (UNEP) and US\$ 191,340 to Australia for their contribution to the Administrative Trust Fund. Reimbursement of the United Kingdom’s contribution of US\$ 990,300 will be made pending formal instruction from the donor.

Closure of the Adaptation Fund Administrative Trust Fund

28. The Administrative Trust Fund for the Adaptation Fund expired on 30 June 2010, with the remaining unused balance of donor contributions totaling US\$ eq. 0.70 million. The Governments of Finland, France, Japan, Norway and Switzerland pledged to transfer their remaining pro-rata share as a donation to the Adaptation Fund Trust Fund. As of 31 July 2010, the trustee had executed donation agreements with Finland and Switzerland, and draft donation agreements with France, Japan and Norway are in the process of being finalized. In accordance with the donor agreements with the trustee, the pro-rata shares of Denmark, Netherlands and Sweden will be transferred to their respective Donor Balance Accounts maintained by the World Bank.

III. Support for the Adaptation Fund Board and implementation of its mandate

29. The CMP, at its fourth session, requested the Adaptation Fund Board to start processing proposals for funding projects, activities or programmes, as applicable, and to report back on progress made.⁶ The Board has completed those tasks as instructed by the CMP, and it is the view of the Board that it has started up the mechanism for the operation of the Adaptation Fund, including the operationalization of direct access.

30. Decision 4/CMP.5, paragraph 9 “[e]ncourages Parties included in Annex I to the Convention and international organizations to provide funding to the Adaptation Fund, which will be additional to the shares of proceeds of the Clean Development Mechanism project activities”. The Board acknowledged the financial support provided in response to this decision by the Governments of Spain and Monaco; and the pledges made by the Governments of Germany and Sweden.

31. The Board also acknowledged the support from the Governments of Finland, France, Japan, Norway and Switzerland who had pledged to transfer their pro-rata share of the balance of the Administrative Trust Fund as a donation to the Adaptation Fund Trust Fund.

32. In addition, the Board recognized the support of the Adaptation Fund Board secretariat, the trustee and the UNFCCC secretariat.

33. In accordance with decision 1/CMP.3, paragraph 18, the recruitment of the two additional dedicated officials to serve the Adaptation Fund Board –an Adaptation Officer and a Programme Assistant – was completed in February 2010. The recruitment process of two additional dedicated officials has been initiated and is expected to be completed by the end of 2010.

⁶ Decision 1/CMP.4, paragraph 10.

34. The funding of project and programme proposals will require substantial resources in addition to those available in the Adaptation Fund. The net resources available in the Adaptation Fund Trust Fund to support funding decisions amount to **US\$ 156 million as of 31 July 2010.** Estimates of potential funds available from 31 July 2010 to the end of 2012 range from approximately US\$ 317 million to US\$ 434 million.⁷

⁷ The estimates provided are based on publicly available information and do not in any way constitute Trustee predictions with respect to future CER prices, exchange rates, CER issuance, or other variables.

Annex I

[ENGLISH ONLY]

[Proposed amendments to the terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund]

In accordance with the terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund (the terms and conditions), paragraph 34, the following text is put forward for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as amendments to the terms and conditions contained in annex 8 to decision 1/CMP.4.

1. The following text should replace the text contained in paragraph 34:

“The Trustee’s role as trustee servicing the Adaptation Fund under the Terms and Conditions shall be automatically terminated three months after the eighth session of the CMP, unless the CMP and the Trustee affirmatively agree in writing to extend beyond this date the term of the Trustee’s services under the Terms and Conditions”;

2. The following text should replace the text contained in paragraph 38:

“The Terms and Conditions or any amendments to the same shall become effective and constitute an agreement between the CMP and the World Bank upon decisions by the CMP and the World Bank to adopt and accept the Terms and Conditions or any amendments to the same”.]