



ADAPTATION FUND

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September 30, 2009

Adaptation Fund Board
Seventh Meeting
Bonn, September 14-16, 2009

**REPORT OF THE ADAPTATION FUND BOARD TO THE CONFERENCE
OF THE PARTIES SERVING AS THE MEETING OF THE PARTIES OF
THE KYOTO PROTOCOL**

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Item XX of the provisional agenda
Report of the Adaptation Fund Board

Report of the Adaptation Fund Board

Note by the Chair of the Adaptation Fund Board

Summary

This report has been prepared in response to decision 1/CMP.3 requesting the Adaptation Fund Board to report on its activities at each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and covers the period from December 2008 to December 2009. The Chair will report orally to the CMP5 on activities carried out from September 2009 to December 2009. It provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of tasks mandated by the CMP to the Adaptation Fund Board, and recommends actions to be taken by the CMP, as appropriate. This report contains, inter alia, draft documents prepared for approval by the CMP in accordance with decision 1/CMP.3, as well as documents, decisions and actions taken by the Adaptation Fund Board to be noted by the

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I. Introduction

A. Mandate

1. The Conference of the Parties, at its seventh session, agreed to the establishment of the Adaptation Fund.¹ The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its third session, decided that the operating entity of the Adaptation Fund would be the Adaptation Fund Board, serviced by a secretariat and a trustee.
2. By its decision 1/CMP.3, the CMP requested the Adaptation Fund Board to report on its activities at each session of the CMP. It further invited the Global Environment Facility to provide secretariat services to the Adaptation Fund Board, and the World Bank to serve as the trustee of the Adaptation Fund, both on an interim basis.

B. Scope of the note

3. This report provides information on progress made with respect to the Adaptation Fund, in particular on the implementation of the mandate received from the CMP, and recommends actions to be taken by the CMP, as appropriate. The report covers the period from December 2008 to September 2009.

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

4. The CMP may wish to take note of the information contained in this report and consider the following actions:

Amendments to the Rules of procedure of the Adaptation Fund Board. In accordance with decision 1/CMP.4, paragraph 2, the Adaptation Fund Board reviewed its rules of procedure and is submitting to the CMP for approval the proposal to amend the rules of procedure; as regards the definitions of the “secretariat” and of the “implementing entities” and “executing entities” (paragraphs 5 (h), 5 (j) and 5 (k)) as contained in Annex I.

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

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.3, paragraph 5 (m), during the reporting period:
 - (a) **Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund.** In accordance with decision 1/CMP.3, paragraphs 5 (b) and (c) and decision 1/CMP.4, paragraphs 8 and 9, the Adaptation Fund Board adopted the operational policies and guidelines, including the project cycle, fiduciary standards that implementing entities shall meet in order to access the aforementioned resources and the accreditation process for those entities.
 - (b) **Monetization of certified emission reductions.** In accordance with decision 1/CMP.3, paragraph 5 (k), the Adaptation Fund Board monetization programme commenced during the third week of May, 2009. The World Bank as trustee carried out the inaugural set of

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¹ Decision 10/CP.7.

sales upon instruction of the Adaptation Fund Board and has since then continued sales according to instructions from the Board.

- (c) **Approval of the Memorandum of Understanding between the Conference of the Parties serving as meeting of the Parties of the Kyoto Protocol and the Council of the Global Environment Facility (GEF) regarding secretariat services to the Adaptation Fund Board, by the GEF Council.** At its 35th meeting held on June 22 to 24, 2009 in Washington, D.C., the GEF Council approved the aforementioned memorandum of understanding and authorized the GEF secretariat to provide all secretariat services to the Adaptation Fund Board.
- (d) **Approval of the Terms and Conditions of Services to be provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund.** The Executive Directors of the World Bank adopted the aforementioned terms and conditions, effective February 27, 2009.

III. Work undertaken during the reporting period

6. The Adaptation Fund Board has held four meetings during the reporting period, each of which was convened at the UNCCD premises in Bonn, Germany. The agendas and annotations (including background documentation on the agenda items) and detailed reports of the meetings have been made publicly available on the Adaptation Fund website.²

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

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

8. In accordance with decision 1/CMP.3, paragraph 13, the Adaptation Fund Board, at its fourth meeting, elected, by consensus, Mr. Jan Cedergren (Sweden) as Chair and Mr. Farrukh Iqbal Khan (Pakistan) as Vice-Chair of the Adaptation Fund Board.

2. Changes in Composition of the Adaptation Fund Board

9. During the reporting period, a number of members and alternate members have been replaced at the Adaptation Fund Board. Among the members of the Board, the following changes took place: Mr. Enele Sopoaga (Tuvalu, Small Island Developing States) was replaced by Mr. Leonard Nurse (Barbados, Small Island Developing States), who was subsequently replaced by Mr. Selwin Hart (Barbados, Small Island Developing States). Mr. Naoya Tsukamoto (Japan, Annex I Parties) was replaced by Mr. Hiroshi Ono (Japan, Annex I Parties). Mr. Carlos Rufino Costa (Colombia, Non-Annex I Parties) was replaced by Mr. Ricardo Lozano Picon (Colombia, Non-Annex I Parties). Ms. Ermira Fida (Albania, Eastern Europe) was replaced by Ms. Medea Inashvili (Georgia, Eastern Europe). Mr. Frank Fass-Metz (Germany, Western European and Others Group) was replaced by Mr. Jan Cedergren (Sweden, Western European and Others Group).

10. The following changes took place among the alternate members of the Board: Ms. Emily Ojoo-Massawa (Kenya, Africa) was replaced by Mr. Richard Mwendandu (Kenya, Africa). Mr. Alejandro Nieto (Spain, Annex I Parties) was replaced by Ms Vanessa Alvarez Franco (Spain, Annex I Parties). Mr. Mohammad Qamar Munir (Bangladesh, Least-Developed Countries) was replaced by Mr. AHM Mustain Billah (Bangladesh, Least-Developed Countries), subsequently replaced by Mr. Nojibur Rahman

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² <<http://www.adaptation-fund.org>>.

(Bangladesh, Least-Developed Countries) who was replaced by Mr. Mirza Shawkat Ali (Bangladesh, Least-Developed Countries).

3. Calendar of meetings of the Adaptation Fund Board in 2009

11. At its fifth meeting, held in Bonn on March 24 to 27, the Adaptation Fund Board adopted a calendar of meetings for 2009 (see table 1).

Table 1. Calendar of meetings of the Adaptation Fund Board in 2009

Dates	Location
24–27 March	Bonn, Germany
15–17 June	Bonn, Germany
14–16 September	Bonn, Germany
16–18 November	Bonn, Germany

4. Workplan of the Adaptation Fund Board

12. The Board, at its sixth meeting, adopted the document “2009 Workplan for the Adaptation Fund Board”.

5. Budget of the Adaptation Fund Board, Secretariat and Trustee

13. During the four meetings held during the reporting period, the Adaptation Fund Board considered and approved resources to support the work of the Board, the Adaptation Fund Board Secretariat and the Trustee through June 30, 2010.

6. Provisional Operational Policies and Guidelines for Parties to access resources from the Adaptation Fund

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

15. As part of the provision described in paragraph 15 above, the Board at its seventh meeting adopted the document “Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund”, as contained in Annex II. The operational policies and guidelines also include the fiduciary standards that national and multilateral implementing entities shall meet in order to access resources from the Fund, in accordance with decision 1/CMP.3, paragraph 30.

7. Establishment of Adaptation Fund Board Committees

16. In accordance with decision 1/CMP.3, paragraph 5 (g), the Adaptation Fund Board is responsible for establishing 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.

17. In accordance with that mandate, the Board, at its fifth meeting, decided to establish an Ethics and Finance Committee and a Project and Programme Review Committee. Further, at its sixth meeting, the Board adopted the Terms of Reference of both committees and the General Guidelines for Board Committees, as contained in Annex III, and selected the members of each committee.

8. Establishment of the Adaptation Fund Board Accreditation Panel

18. As part of the provision described in paragraph 17 above, the Adaptation Fund Board at its seventh meeting adopted the document “Terms of Reference for the Establishment of the Adaptation Fund Board Accreditation Panel”, as contained in Annex IV.

9. Legal arrangements for the Adaptation Fund Board Secretariat

19. Following approval by the CMP at its fourth session of the “Memorandum of Understanding between the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol and the Council of the Global Environment Facility regarding secretariat services to the Adaptation Fund Board”, the GEF Council at its 35th meeting held in Washington, D.C., on June 22 to 24, 2009, approved the memorandum of understanding (MOU) and authorized the GEF Secretariat to provide all secretariat services to the Adaptation Fund Board, as reflected in the MOU, the Rules of Procedure of the Adaptation Fund Board, the Role and Responsibilities of the Adaptation Fund Board Secretariat, and the Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund.

10. Legal arrangements for the Adaptation Fund Trustee

20. Following approval by the CMP at its fourth session of the “Terms and Conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund”, the Executive Directors of the World Bank approved the above mentioned terms and conditions, effective February 27, 2009.

11. Monetization of certified emission reductions

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

22. Through the CER Monetization Program, the World Bank as Trustee converts the Adaptation Fund’s CERs into cash. According to Decision 1/CMP.3, paragraph 28, the three objectives of the CER Monetization program are to: (i) ensure predictable revenue flow for the Adaptation Fund; (ii) optimize revenue for the Adaptation Fund while limiting financial risks; and to (iii) enhance transparency and monetize the share of proceeds in the most cost-effective and inclusive manner, utilizing appropriate expertise.

23. During the third week of May 2009, the World Bank as Trustee completed the first set of inaugural transactions to monetize CERs. The Trustee sold the first 600,000 tons of CERs at an average price of EUR 12.17 per ton. A second sale of CERs took place during the week of June 8, 2009. In that second transaction, 500,000 tons of CERs were sold at an average price of EUR 11.46 per ton. The buyers of the CERs were widely distributed across sectors and regions. The CER Monetization Guidelines, as approved by the Adaptation Fund Board, provide for the World Bank as Trustee to conduct ongoing sales on carbon exchanges as well as over-the-counter sales of CERs. The Adaptation Fund Board agreed that the Trustee should continue to monetize CERs at a modest pace until such time as resources were required for project and program funding.

24. As of September 16, 2009, the Trustee had sold 1.13 million tons of CERs, generating revenue of approximately US\$ 18.7 million for the Adaptation Fund.

12. Legal capacity of the Adaptation Fund Board

25. In decision 1/CMP.4, paragraph 11, the Parties to the Kyoto Protocol decided “that the Adaptation Fund Board be conferred such legal capacity as necessary for the discharge of its functions with regard to direct access by eligible Parties and implementing and executing entities”.

26. Following the provision above, the Board invited Kyoto Protocol Parties to recognize the legal capacity of, and to host, the Adaptation Fund Board. Two Parties submitted offers to that effect: Germany and Barbados. At its sixth and seventh meetings, the Adaptation Fund Board considered the two offers, but was awaiting further information from both Parties before taking a final decision.

13. Establishment of the Adaptation Fund Trust Fund

27. The World Bank as Trustee established a trust fund under its rules and procedures specifically to hold the cash proceeds from the monetization of CERs and also any other contributions, on behalf of the Adaptation Fund.

28. The Legal Arrangements between the CMP and the World Bank as Trustee specify that disbursements by the Trustee will be made only at, and in accordance with, written direction provided by the Adaptation Fund Board. Under those Arrangements, the Bank will have a limited and non-operational role. Once funds are transferred, the Trustee will have no responsibility for the use of the Trust Fund funds and activities carried out therewith.

14. Reimbursements of funds to Parties for their contributions

29. The Adaptation Fund Board, at its sixth meeting decided to pay back the outstanding amounts representing debts for a loan from the Least-Developed Countries Fund (LDCF) and the reimbursable contributions from the Governments of Australia, the United Kingdom of Great Britain and Northern Ireland and from the United Nations Environment Programme. More information on those contributions is contained in Annex V.

30. As of July 30, 2009 the debt corresponding to the loan from the LDCF had been reimbursed.

15. Contest to Select a Logo for the Adaptation Fund

31. At its fifth meeting, the Adaptation Fund Board decided to request the Secretariat to institute a contest in order to encourage submissions of possible logos for the Adaptation Fund. At its sixth meeting, the Adaptation Fund Board selected the logo designed by Mr. Andrew Wee (Philippines) from among the submissions that had been received and adopted it as the logo of the Adaptation Fund. The Adaptation Fund Board also invited the winner of the contest to attend an award ceremony that took place during the seventh meeting of the Adaptation Fund Board.

16. Interactions with the Pilot Programme on Climate Resilience

32. During the reporting period, Ms. Merlyn Van Voore (South Africa, Africa) attended three meetings of the World Bank’s Pilot Programme on Climate Resilience (PPCR) and presented two reports to the Board on the activities of the PPCR Sub-Committee.

IV. Support for the Adaptation Fund Board and Implementation of its Mandate

33. The CMP, at its third session, requested the Adaptation Fund Board to develop mechanisms and proposals to enable the Adaptation Fund to become operational. The Board has completed those tasks as instructed by the CMP, and it is the view of the Board that it has established the necessary institutional and regulatory infrastructure for the operation of the Adaptation Fund, including the framework to assure direct access.

34. The Board acknowledged the timely financial support provided by Denmark, Finland, France, Norway, Sweden, Switzerland and Japan, which have enabled the running of the meetings of the Board until the inaugural monetization of CERs.

35. The Board also acknowledges the support provided by Australia, the United Kingdom of Great Britain and Northern Ireland, and the United Nations Environment Programme under the form of reimbursable contributions.

36. The Board also recognized the support of the Adaptation Fund Board Secretariat, the Trustee and the UNFCCC secretariat.

37. The Adaptation Fund Board delivered on its workplan until the end of 2009, approved budgets to support this workplan, initiated the monetization of CERs, and established the operational framework for the Adaptation Fund, including:

- (a) Operational policies and guidelines for parties to access resources from the Adaptation Fund, including the project cycle, the fiduciary standards that implementing entities shall meet in order to access resources from the Fund, the accreditation process for implementing entities, and the templates for project submission;
- (b) Establishment of the Accreditation Panel.

38. The Board has to put in place a system for the accreditation of implementing entities. The Board has also taken steps to constitute the Accreditation Panel by naming two of its member to the Panel, Mr. William Kojo Agyemang-Bonsu (Ghana, Non-Annex I Parties) and Mr. Jerzy Janota Bzowski (Poland, Eastern Europe). The Board has also initiated the process to call for independent experts to be named on the Panel and has approved a letter that was sent to eligible Parties to invite them to nominate national implementing entities for accreditation as well as a letter inviting multilateral agencies to express their interest to serve as multilateral implementing entities.

39. The World Bank as trustee completed the legal and financial arrangements necessary to launch the inaugural sales of CERs on behalf of the Adaptation Fund Board, and raised over \$18.7 million for the Fund through the sale of 1.13 million tons of CERs.

40. Several decisions taken by the Board in accordance with the mandate of decision 1/CMP.3 are currently being implemented.

41. In accordance with decision 1/CMP.3, paragraph 18, the recruitment of the first dedicated official to serve the Adaptation Fund Board -the Manager of the Adaptation Fund Board secretariat- has been completed in February, 2009. The recruitment process of two additional dedicated officials has been initiated. They are expected to be hired by the end of 2009.

42. The start of the project cycle and funding of project and programme proposals might require substantial funds in addition to those now available in the Adaptation Fund. The net resources available in the Adaptation Fund Trust Fund for funding decisions amount to USD 8.99 million as of August 31, 2009. A rough estimate of funds available up to 2012 is USD 480 million.

V. Calendar of meetings for 2010 and administrative budget for 2010 fiscal year

43. Having established the operational framework in 2009, the Board in 2010 will approve funding proposals that meet the adaptation needs of developing countries.

1. Calendar of meetings of the Adaptation Fund Board

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

Table 2. Calendar of meetings of the Adaptation Fund Board in 2010¹

Month	Location
March	Bonn, Germany
June	Bonn
September	Bonn
December	

2. Administrative Budget

45. The budget requirement projected for the 2010 fiscal year is USD 2,288,933 at July 30, 2009.

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

46. Following to the suggestions and requests from the NGO observers, the Board have taken the following steps:
- (a) The proceedings of the meetings of the Board are being made available as webcasts on the Adaptation Fund website;
 - (b) Since the fifth meeting of the Board and after each meeting a statement is released to the press and posted on a new section of the Adaptation Fund website;
 - (c) Since the sixth meeting, observers are allowed to sit in the same room where the Board sessions.

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¹ The locations mentioned in Table 2 are subject to change depending upon the decision on the legal arrangements to confer legal capacity to the Adaptation Fund Board.

Annex V

[ENGLISH ONLY]

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

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

2. As of 29 July 2009, the governments of Australia, Denmark, Finland, France, Japan, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and UNEP have paid in contributions in the total amount of USD 3,186,875 to cover the administrative costs and expenses of the AF Board and the AF Secretariat in an interim phase. This amount includes a USD 700,000 temporary loan which was provided by the LDCF trust fund and has since been repaid as well as administrative fees charged for set-up and maintenance of the accounts. Among those donors, Australia, the United Kingdom and UNEP have requested to be reimbursed for their contributions. Details of the status of the contributions are provided in the table below.

Table: Status of Contributions at 29 July 2009

Donor	Currency	Amount	US Equivalent*	Reimbursement
<i>Fully paid</i>				
Australia	AUD	200,000	191,340	Yes
Denmark	DKK	3,000,000	544,030	No
Finland	EUR	100,000	155,340	No
France	EUR	95,000	122,693	No
Japan	USD	13,094	13,093	No
LDCF - loan	USD	700,000	700,000	yes
LDCF - repayment	USD	(700,000)	(700,000)	
Netherlands	EUR	100,000	139,300	No
Norway	NOK	1,000,000	201,726	No
Sweden	SEK	2,100,000	251,154	No
Switzerland	CHF	200,000	178,651	No
United Kingdom	GBP	500,000	990,300	Yes
UNEP	USD	500,000	500,000	Yes
Administrative fees	USD	(100,752)	(100,752)	
Net total fully paid			3,186,875	

*Represents actual United States dollars purchased after payment by donor.