

The Adaptation Fund

June 19, 2008

ADAPTATION FUND BOARD

Second Meeting

Bonn, 16-19 June 2008

REPORT OF THE SECOND MEETING OF THE ADAPTATION FUND BOARD

INTRODUCTION

1. The second meeting of the Adaptation Fund Board of the Kyoto Protocol was held at the German Ministry of Development and Economic Cooperation in Bonn from 16 to 19 June 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 (COP/MOP).
2. The full list of the members and alternates nominated by their respective groups and elected by the COP/MOP pursuant to decision 1/CMP.3 is attached as Annex I to the present report.
3. A list of all participants and observers is provided in document AFB/B.2/Inf.2, which can be found on the Adaptation Fund website at <http://www.adaptation-fund.org/documents.html>.

Agenda Item 1: Opening of the Meeting

4. The meeting was opened at 9.50 a.m. on Monday, 16 June 2008, by the Chair, Mr. Richard Muyungi (United Republic of Tanzania, Least-Developed Countries), who welcomed the participants to Bonn.
5. He expressed regret at the resignation of the Vice-Chair, Ms. Marita Steinke (Germany), in order to take up a new post in her country's Government. Mr. Frank Fass-Metz had been identified by the German Government as replacement but had yet to be elected as a member by the Conference of the Parties, and would therefore participate as an observer. The Chair congratulated Ms. Steinke on her new post and wished her all the best in her future activities.
6. The Chair informed the Board of the work he had undertaken since its first meeting, which included attending consultations on climate investment funds on 19 and 20 May in London at the invitation of the Government of the United Kingdom and those organized by the World Bank from 22 to 24 May in Potsdam, Germany. He had also presented an oral report to the twenty-eighth session of the subsidiary bodies of the United Nations Framework Convention on Climate Change (UNFCCC), held in Bonn in May 2008. He had also consulted the UNFCCC Secretariat on some legal implications of the various documents still under consideration by the Board and had examined the operation of similar funds to establish how best to ensure that the Board fulfilled its mandate. The Chair distributed copies of the UNFCCC's legal opinion regarding the issue of the Fund's legal status to members and alternates, together with draft terms of reference and operational guidelines for committees. Taking into account those consultations,

the Chair proposed four committees to assist the work of the Board in the future. The Chair informed the Board that he had accordingly developed the draft terms of reference for each of the committees and their operational procedures.

7. The Board's priorities at the present meeting were: to conclude issues outstanding from its first meeting, in particular with regard to its budget, work plan and rules of procedure, and operational policies and guidelines for Parties to access resources from the Fund; the establishment of committees to assist the Board in its work; and to enable the Chair to perform intersessional duties as required .

Agenda Item 2: Organizational Matters

Adoption of the Agenda

8. The Board adopted the agenda contained in Annex II to the present report on the basis of the provisional agenda contained in document AFB/B.2/Rev.2 with the addition of two agenda items, one on the establishment of Board committees and another on the revised budget of the Secretariat.

9. All members and alternates declared that they had no conflict of interest with regard to any item on the agenda, with the exception of Mr. Carlos Rufino Costa (Colombia, non-Annex I Parties), who said that, as he had started to act as a consultant for the Latin American and Caribbean region at the World Bank since the first meeting of the Board, he would abstain from discussion of any issues relating to the Invited Trustee.

Organization of Work

10. The Board decided to hold a closed session to discuss the organization of work. Following the closed session, the Chair reported to the Board that, in the interest of efficiency, it had been proposed that working groups be established to examine any issues which could not be resolved easily in plenary. The Board decided that no more than two such groups would be created at this meeting, in order to ensure that all constituencies could be represented in their deliberations.

(Decision AFB/B.2/1)

Agenda Item 3: Election of the Vice-Chair of the Adaptation Fund Board

11. The Chair invited the members of the Board to elect the Vice-Chair for 2008-2009. A member representing Annex I countries said that, after consultations, his group wished to nominate Mr. Naoya Tsukamoto (Japan, Annex I Parties) as Vice-Chair. Accordingly, the Board decided by acclamation to elect Mr. Tsukamoto as Vice-Chair for the period 2008-2009.

(Decision AFB/B.2/2)

Agenda Item 4: Establishment of Committees

12. The Chair circulated a proposal setting out draft terms of reference and operational modalities for the establishment of committees of the Board. The Board welcomed the initiative taken by the Chair in accordance with the mandate given in decision 1/CMP.3

13. The Board decided that the Chair, with the assistance of the Secretariat, would undertake consultations on the issue with members and alternates with a view to its consideration at the third meeting.

(Decision AFB/B.2/3)

Agenda Item 5: Adoption of the report of the First Meeting of the Adaptation Fund Board

14. The Secretariat introduced the report of the first meeting of the Adaptation Fund Board (AFB/B.1/L.1/Rev.1) for approval by the Board. Following a discussion the Board decided to adopt the report of the first meeting, as amended, on the understanding that future reports would only contain a summary of the documents approved, as well as the decisions taken, by the Board.

(Decision AFB/B.2/4)

Agenda Item 6: Report on the Activities of the Secretariat

15. The Secretariat drew the Board's attention to document AFB/B.2/2, which contained a report on the activities undertaken by the Secretariat since the first meeting of the Board. The principal activity had been the preparation of documents for the present meeting. Several documents prepared for the first meeting were being resubmitted to the Board, unchanged. Six documents had been revised to reflect discussions at the first meeting and a further four documents had been prepared for the present meeting. The job descriptions for the senior programme manager, the programme manager and the programme assistant had been elaborated and the vacancies for those positions had been advertised.

16. Following a discussion, the Board took note of the report on the activities of the Secretariat on the understanding that the staffing issue would be further considered under agenda item 7(d).

Agenda Item 7: Issues remaining from the First Meeting of the Board

Role and Responsibilities of the Adaptation Fund Board

17. The Chair introduced the document on the draft role and responsibilities of the Adaptation Fund Board, which had previously been considered at the first meeting of the Board and revised in light of the discussions that had taken place at that meeting. The Chair reminded the Board that the text had been drawn from the decisions of the COP/MOP and that there was a need to ensure that the text being approved by the Board was consistent with those decisions.

18. Following an initial discussion of the document, the Board agreed to convene an open-ended working group, with Mr. Anton Hilber (Switzerland, WEOG), and Mr. Enele Sopoaga (Tuvalu, SIDS), as co-chairs, to consider several unresolved issues relating to the role and responsibilities of the Adaptation Fund Board.

19. The co-chairs reported that the working group had had fruitful discussions but had been unable to achieve consensus on all the unresolved issues.

20. After considering revised texts contained in documents AFB/B.2/3/Rev.1 and AFB/B.2/3/Rev.2, the Board decided to adopt the document on the role and responsibilities of the Adaptation Fund Board as contained in Annex III to the present report, but that, pending further developments, paragraph 22 would be placed in square brackets and would be addressed at the Board's third meeting.

(Decision AFB/B.2/5)

Additional Rules of Procedure of the Adaptation Fund Board

21. The Chair drew attention to document AFB/B.2/4, which contained the draft Rules of Procedure of the Adaptation Fund Board meetings amended to take account of comments made at the Board's first meeting. Following an exchange of views during which several further amendments were suggested, it was agreed that the draft Rules would be considered by the working group established to discuss the role and responsibilities of the Adaptation Fund Board (see paragraph 19 above).

22. During discussion of the rules applicable to compensation under the interim trust fund currently administered by the World Bank, Mr. Hans Olav Ibrekk (Norway, Annex I Parties) expressed his objection to the establishment of a new interim trust fund for the Adaptation Fund Board Secretariat for the purpose of following United Nations rules rather than those of the World Bank and requested that his statement be included in the report.

23. After hearing the report of the working group and discussing the agenda item, revised versions of the rules of procedure were circulated as documents AFB/B.2/4 Revs. 1 and 2.

24. The Board decided to approve Section III, and noted its approval at the First Board meeting of Sections I and II, of the Rules of Procedure contained in Annex IV to the present report and to return to outstanding issues at its third meeting.

(Decision AFB/B.2/6)

2008 Work Plan of the Adaptation Fund Board

25. The Secretariat introduced the draft 2008 work plan of the Adaptation Fund Board contained in document AFB/B.2/5. After various amendments had been proposed, the Secretariat was requested to incorporate them into a revised version of the work plan to be submitted for the Board's consideration later in the meeting.

26. Following a discussion and circulation of a revised text contained in document AFB/B.2/5/Rev.1, the Board decided to adopt the work plan contained in Annex V to the present report as revised.

(Decision AFB/B.2/7)

Revised Budget of the Adaptation Fund Board and the Secretariat

27. The Board considered a revision of the estimated budget contained in Annex 2 to the report of the Board's first meeting, in accordance with paragraph 67 of that report.

28. The Board acknowledged the support provided to the interim trust fund of the Adaptation Fund by Australia, Finland, Norway and the United Kingdom, as well as by France, which had announced a new contribution of US\$ 150,000.

29. The Board also noted with concern the shortfall of funding to support the work of the Adaptation Fund Board in the interim, and requested the Chair to raise this serious matter with the President of the COP/MOP and to explore additional ways of securing adequate funding.

30. The Board agreed to work along the lines of the adopted budget, which would remain subject to review at its third meeting to be held in September 2008.

31. The Board decided:

- (a) To hold two additional meetings in 2008, in September and December respectively, although the meeting in December would be subject to review of the financial situation at the third meeting;
- (b) That once the Adaptation Fund trust fund was established, United Nations rules would apply to travel and subsistence allowances,
- (c) To adopt the revised budget contained in Annex VI to the present report.

(Decision AFB/B.2/8)

Legal Arrangements for the Adaptation Fund Secretariat

32. The Secretariat introduced document AFB/B.2/6, to which was annexed a draft Memorandum of Understanding between the COP/MOP and the GEF Council for the provision of secretariat services to the Adaptation Fund Board. In decision 1/CMP.3, the COP/MOP had requested that the Adaptation Fund Board develop the necessary legal arrangements for the regulation of the required services of the Secretariat and the Trustee and present them to the COP/MOP at its fourth meeting for adoption.

33. Following a discussion, the Chair observed that the draft Memorandum of Understanding did not appear to capture text that had been agreed at the first meeting of the Board on the role

and responsibilities of the Secretariat. He asked the Secretariat to review the draft memorandum, in consultation with the Vice-Chair of the Adaptation Fund Board and Mr. Farrukh Iqbal Khan (Pakistan, non-Annex I Parties), and to submit a revised draft for consideration by the Board.

34. Following a presentation by Mr. Khan, revised drafts were circulated to the Board as documents AFB/B.2/6/Revs.1 and 2.

35. The Board decided to adopt the revised draft legal arrangements for the Adaptation Fund Secretariat contained in Annex VII to the present report, as amended.

(Decision AFB/B.2/9)

Legal Status of the Adaptation Fund

36. The Board had before it document AFB/B.2/7 on the legal status of the Adaptation Fund, as well as an informal text containing an analysis of the need for a separate legal personality for the Adaptation Fund, which had been prepared by the Secretariat of the UNFCCC at the request of the Chair. It was noted that the document on the legal status of the Fund was not required by decision 1/CMP.3.

37. As there appeared to be agreement that the issue should be considered further, the Board decided that the Chair, in consultation with the Vice-Chair, would work intersessionally with the legal advisers from the Adaptation Fund Secretariat, the UNFCCC Secretariat, and the Invited Trustee to produce, for consideration by the Board at its next meeting, an options paper that laid out the advantages and disadvantages for according legal personality to the Adaptation Fund, together with any other available options to assist the operationalization of the Fund in the existing mechanism. Such a group could also formulate a request to the COP/MOP for guidance on both the legal requirements for the monetization of certified emission reductions and the legal implications for the Adaptation Fund and the Adaptation Fund Board of allowing direct access to the Fund.

(Decision AFB/B.2/10)

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

38. The representative of the Secretariat introduced the draft provisional operational policies and guidelines for Parties to access resources from the Adaptation Fund contained in document AFB/B.2/8, which were intended for finalization at a later meeting of the Board, taking into account discussions at the present meeting and guidance from the Board.

39. Following a discussion, the Board agreed to convene an open-ended working group, co-chaired by Mr. Yvan Biot (United Kingdom, Annex I Parties) and Mr. William Kojo Agyemang-Bonsu (Ghana, non-Annex I Parties), to discuss the draft policies and guidelines.

40. In light of the deliberations of the working group, a draft outline for operational policies and guidelines was circulated for consideration by the Board.

41. Following a discussion, the Board decided:

- (a) To adopt the outline contained in Annex VIII to the present report;
- (b) To invite members and alternates to provide input for the operational policies and guidelines, for Parties to access resources from the Adaptation Fund, based on the outline approved, to the Secretariat by 7 July 2008;
- (c) To request the Secretariat to revise the provisional operational policies and guidelines in light of the outline that had been approved by the Board and the views expressed by the Board during the second meeting; and
- (d) To reconsider the revised provisional operational policies and guidelines at the third meeting of the Board.

(Decision AFB/B.2/11)

Monetization of Certified Emission Reductions (CERs)

42. The representative of the Invited Trustee, introducing document AFB/B.2/9 on monetization of certified emission reductions (CERs) for the Adaptation Fund, gave a presentation describing the process envisaged for monetizing CERs. The Board expressed appreciation of the presentation by the representative of the Invited Trustee.

43. The ensuing discussion touched on many areas, including: the role of the Board in monetization; the need for monetization to be cost-effective; whether governments could participate in the CER market and, if so, with what implications; transparency, and the effect of full disclosure on market forces; the urgent need to obtain capital for the Adaptation Fund as soon as possible; the potential implications of the Fund having legal personality; the nature of adaptation activities and restrictions on certain types of project in terms of CERs; ownership of CERs; optimizing CER revenue; information flow between the Board and the Trustee; and the new and developing nature of CER markets. The question was also raised as to whether the role of Trustee and responsibility for monetization had necessarily to be assigned to a single entity as is currently inferred from paragraph 22 of 1/CMP.3.

44. The Board took note of the report on monetization of CERs.

45. After a wide-ranging discussion, the Board noted the urgency of monetizing the CERs and decided to establish a committee to discuss, and propose to the Board at its next meeting, possible alternatives to expedite the process of monetizing the CERs, with the assistance of the Invited Trustee. The committee would be composed of Mr. Richard Muyungi (Tanzania, LDCs), Ms. Merlyn Van Voore (South Africa, Africa), Mr. Anton Hilber (Switzerland, WEOG), Mr. Alejandro Nieto (Spain, Annex I Parties), Mr. Luis Paz Castro (Cuba, GRULAC), Ms. Ermira

Fida (Albania, Eastern Europe), Mr. Farrukh Iqbal Khan (Pakistan, Non-Annex I Parties), and Mr Amjad Abdulla (Maldives, SIDS)

(Decision AFB/B.2/12)

Role and Responsibilities of the Adaptation Fund Trustee

46. The Invited Trustee introduced document AFB/B.2/10, which contained an overview of the core functions of the Trustee, its operating procedures, and the budget for the services being provided to the Adaptation Fund Board. Following a discussion, the Invited Trustee was asked to present a revised document to the Board.

47. Having considered revised texts contained in documents AFB/B.2/10/Revs.1 and 2, the Board decided to circulate the revised text on the role and responsibilities of the Adaptation Fund Trustee to members and alternatives, requesting them to send their comments to the Secretariat within two weeks.

(Decision AFB/B.2/13)

Legal Arrangements for the Adaptation Fund Trustee

48. The Invited Trustee introduced document AFB/B.2/11 and a corrigendum, which contained the draft terms and conditions for the services to be provided by the World Bank as Trustee of the Adaptation Fund.

49. After a discussion taking into account the views that had been expressed at the present meeting, the Board decided:

- (a) To request further comments from members and alternates to be submitted to the Secretariat within two weeks from the Monday following the Board Meeting;
- (b) To request the Chair, in consultation with the Vice-Chair and with the support of the Secretariat, to prepare a revised text taking into consideration the comments received;
- (c) To transmit the revised text to the Invited Trustee for submission to the Board of Directors of the International Bank for Reconstruction and Development (IBRD);
- (d) To return to the issue at its third meeting in the light of the comments received from the Board of Directors of the IBRD.

(Decision AFB/B.2/14)

Roles and Responsibilities of Implementing and Executing Entities

50. The representative of the Secretariat introduced document AFB/B.2/12 on draft roles and responsibilities of implementing and executing entities, drawing particular attention to the distinction between implementing and executing entities. In view of the similarities between this agenda items, after a brief general discussion, it was agreed that the document should be examined by the working group established to consider the draft provisional operational policies and guidelines for Parties to access resources from the Adaptation Fund (see paragraph 40 above).

51. In the light of the deliberations in the working group, a revised text was circulated. The Board decided to adopt the revised text as contained in Annex IX to the present report.

(Decision AFB/B.2/15)

Agenda Item 8: Status of the Adaptation Fund Resources

52. The Secretariat introduced document AFB/B.2/14 on the status of the Adaptation Fund resources, which presented the status of contributions to the Adaptation Trust Fund, the approved budget for the Adaptation Fund for the period 1 January 2008 to 30 June 2009 and the expenses incurred by the Adaptation Fund Secretariat from 1 January 2008 to 30 June 2008, as well as the potential shortfall in Fund resources.. Following a discussion, the Board observed that the expenses incurred reflected the estimated expenses of the Secretariat and not the actual expense incurred. He asked the Secretariat to provide the Board with the actual expenses incurred.

53. The Board took note of the actual expenses incurred from 1 January until 30 June 2008, as submitted by the Secretariat.

Agenda Item 9: Note on Preparation of the Report of the Adaptation Fund Board to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol

54. The Secretariat introduced the note on preparation of the report of the Adaptation Fund Board to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol contained in document AFB/B.2/15.

55. The Board discussed the time-limit for submission of the report, bearing in mind that it had decided to hold its third meeting in September. The representative of the UNFCCC Secretariat confirmed that normally documents for the COP/MOP had to be submitted by 1 September 2008. If any document was submitted after that date, the United Nations Office at Geneva, responsible for translating and publishing the documents, would have to be informed and a footnote added to the document stating that it had been submitted late.

56. The Board requested the Chair to prepare an outline of the report, circulate it to members and alternates, with a view to completing the report in time for the third meeting.

Agenda Item 10: Other Matters*Presentation on Climate Investment Funds*

57. At the invitation of the Chair, Mr. Ian Noble (Senior Climate Change Specialist, World Bank) gave a presentation on climate investment funds, in particular the Pilot Programme for Climate Resilience (PPCR), and answered various questions from the Board in that regard. Members of the Board expressed the hope that there would be close cooperation between the Board and the PPCR.

58. The Chair confirmed that he had been invited to participate in meetings of the PPCR's governing body. He thanked Mr. Noble for his presentation and expressed the hope that similar presentations would be made in the future.

Entry Visas

59. Mr. Jeffery Spooner (Jamaica, GRULAC), requested assistance from the UNFCCC Secretariat in obtaining a one- or two-year multiple entry visa to enter Germany as he had encountered problems in travelling to meetings.

Agreed Item 11: Date and Venue of the Third Meeting of the Adaptation Fund Board

60. The Board decided to hold its third meeting in Bonn from 9 to 12 September 2008.

(Decision AFB/B.2/16)

Agenda Item 12: Adoption of the Report and Closure of the Meeting.

61. The Board considered the draft report of its second meeting contained in document AFB/B.2/L.1.
62. The Board adopted the draft report on the understanding that the Chair, in cooperation with the Secretariat, would finalize the text, taking into account the amendments proposed during the meeting.
63. The Chair expressed gratitude to the Government of Germany for the support given for the holding of the second meeting.
64. The Chair expressed gratitude to the UNFCCC Secretariat for the support given to the Adaptation Fund.
65. Mr. Frans Fass-Metz (Germany), speaking at the invitation of the Chair, congratulated the Board on its work and said he looked forward to participating in its future deliberations.
66. Following the customary exchange of courtesies, the Chair declared the meeting closed at 7.45 p.m. on Thursday, 19 June 2008.

ANNEX I

MEMBERS AND ALTERNATES PRESENT AT THE SECOND MEETING

MEMBERS		
Name	Country	Constituency
Mr. Cheikh Ndiaye Sylla	Senegal	Africa
Ms. Merlyn Van Voore	South Africa	Africa
Mr. Mahendra Siregar	Indonesia	Asia
Mr. Mohammed Al-Maslamani	Qatar	Asia
Ms. Ermira Fida	Albania	Eastern Europe;
Mr. 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. Naoya Tsukamoto	Japan	Annex I Parties
Mr. Carlos Rufino Costa	Colombia	Non-Annex I Parties
Mr. Farrukh Iqbal Khan	Pakistan	Non-Annex I Parties

ALTERNATES		
Name	Country	Constituency
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. Markku Kanninen	Finland	Western European and Others Group
Mr. Hans Olav Ibrekk	Norway	Western European and Others Group
Mr. Amjad Abdulla	Maldives	Small Island Developing States
Mr. Mohammad Qamar Munir	Bangladesh	Least-Developed Countries;
Mr. Alejandro Nieto	Spain	Annex I Parties
Mr. Yvan Biot	United Kingdom of Great Britain and Northern Ireland	Annex I Parties
Mr. William Kojo Agyemang-Bonsu	Ghana	Non-Annex I Parties
Mr. Bruno Sekoli	Lesotho	Non-Annex I Parties

ADOPTED AGENDA OF THE SECOND MEETING

1. Opening of the Meeting
2. Organizational Matters
 - (a) Adoption of the Agenda
 - (b) Organization of Work
3. Election of the Vice-Chair of the Adaptation Fund Board
4. Establishment of Committees
5. Adoption of the Report of the First Meeting of the Adaptation Fund Board
6. Report on the Activities of the Secretariat
7. Issues remaining from the First Meeting of the Board
 - (a) Role and Responsibilities of the Adaptation Fund Board
 - (b) Additional Rules of Procedure of the Adaptation Fund Board
 - (c) 2008 Work Plan of the Adaptation Fund Board
 - (d) Revised Budget of the Adaptation Fund Board and the Secretariat
 - (e) Legal Arrangements for the Adaptation Fund Secretariat
 - (f) Legal Status of the Adaptation Fund
 - (g) Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund
 - (h) Monetization of Certified Emission Reductions (CERs)
 - (i) Role and Responsibilities of the Adaptation Fund Trustee
 - (j) Legal Arrangements for the Adaptation Fund Trustee
 - (k) Roles and Responsibilities of Implementing and Executing Entities
 - (l) Invitation to Implementing Entities to Cooperate with the Adaptation Fund Board
8. Status of the Adaptation Fund Resources
9. Note on Preparation of the Report of the Adaptation Fund Board to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol
10. Other Matters
11. Date and Venue of the Third Meeting of the Adaptation Fund Board
12. Adoption of the Report and Closure of the Meeting

ROLE AND RESPONSIBILITIES OF THE ADAPTATION FUND BOARD

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

- (ii) Facilitative procedures for accessing funds, including short and efficient project development and approval cycles and expedited processing of eligible activities;
- (iii) Projects should be country driven and should clearly be based on needs, views and priorities of the eligible Parties, taking into account, *inter alia*, national sustainable development strategies, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist;
- (iv) Funding shall be available for concrete adaptation projects and programmes in eligible countries;
- (v) Ability to receive contributions from other sources of funding;
- (vi) Competency in adaptation and financial management;
- (vii) Sound financial management, including the use of international fiduciary standards;
- (viii) Clearly defined responsibilities for quality assurance, management and implementation;
- (ix) Independent monitoring, evaluation and financial audits; and
- (x) Learning by doing.

8. The Board shall ensure that projects receiving assistance from the Adaptation Fund Board are designed to achieve sustainable development objectives in accordance with applicable national criteria.

9. The Board shall develop criteria based on principles and modalities listed in Decision 5/CMP.2 to ensure that the executing entities have the capacity to implement the administrative and financial management guidelines of the Adaptation Fund;

10. The Board shall decide on projects, including the allocation of funds, in line with the Adaptation Fund principles, criteria, modalities, policies and programmes, in accordance with decision 5/CMP.2;

11. The Board shall develop and agree on rules of procedure for the Board that are additional to those included in Decision 1/CMP.3 and recommend them for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

12. The Board shall monitor and review implementation of the operations of the Adaptation Fund, including its administrative arrangements and expenditures incurred under the Adaptation Fund, and recommend decisions, as may be appropriate, for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

13. The Board shall establish committees, panels and working groups, if required, to provide, *inter-alia*, expert advice, to assist the Adaptation Fund Board in the performance of its functions;

14. The Board shall draw upon and make use of the expertise that the Adaptation Fund Board may require to perform its functions;

15. The Board shall regularly review performance reports on implementation and ensure independent evaluation and auditing of activities supported by the Adaptation Fund;

16. The Board shall develop and approve the role and responsibilities of the Secretariat.

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

SECTIONS I-III OF THE RULES OF PROCEDURE OF THE ADAPTATION FUND BOARD

I Scope

26. 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

27. 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 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 provide 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 international, regional, sub-regional or bilateral agencies/organizations that have been identified by the Board as meeting the criteria adopted by the Board, in accordance with 1/CMP.3 (5)(c), to access funding to implement concrete adaptation projects and programs supported by the Fund.
- (k) “Executing Entities” are national, sub-regional and regional entities that are chosen by governments of eligible Parties and 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 under the United Nations Framework Convention on Climate Change.
- (n) “Parties” means Parties to the Protocol.
- (o) “Annex I Parties” means Parties listed in Annex I of the UNFCCC.
- (p) “Non-Annex I Parties” means Parties not listed 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 Head of the entity responsible for rendering secretariat services to the Adaptation Fund Board, which on an interim basis is the CEO of the GEF.

III. Board

28. 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 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.

29. 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.

30. 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.

31. In the event of the resignation of a Member or an Alternate or their inability to perform their designated functions, 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.

32. 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.

33. Members and Alternates shall be bound by the rules of procedure of the Board, and shall reclude 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.

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

2008 WORK PLAN OF THE ADAPTATION FUND BOARD

BACKGROUND

1. Decision 1/CMP.3 assigned several functions to the Adaptation Fund Board, and specified in paragraph 5(m) the following six functions to be included in the Board's work plan for the period up to the fourth session of the COP/MOP, to enable their adoption or noting at the same session:
 - (a) To develop strategic priorities, policies and guidelines, and recommend their adoption to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
 - (b) To develop and decide on specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, in accordance with decision 5/CMP.2, and to report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
 - (c) To develop criteria based on principles and modalities listed in decision 5/CMP.2 to ensure that the executing entities have the capacity to implement the administrative and financial management guidelines of the Adaptation Fund, and report on it to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
 - (e) To develop and agree on additional rules of procedure to those included in this decision and recommend these for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
 - (j) To develop and approve draft legal and administrative arrangements for secretariat services and the trustee for approval by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
 - (k) To be responsible for the monetization of certified emission reductions issued by the Executive Board of the clean development mechanism and forwarded to the Adaptation Fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, and to report annually to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on the monetization of certified emission reductions;
2. The following tables provide information with respect to preparation of tasks to be undertaken and determination of responsible parties.

Table 1

TASK	ACTION REQUIRED	RESPONSIBLE	CONSIDER	APPROVAL	DEADLINE
Rules of procedure of the Adaptation Fund Board	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 1st meeting
Role and responsibilities of the Adaptation Fund Board	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 1st meeting
Provisional operational policies and guidelines for parties to access resources from the Adaptation Fund	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 1st meeting
Legal arrangements between CMP and the Adaptation Fund Secretariat	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 1st meeting
Monetization of Certified Emission Reduction credits (CERs)	Prepare documentation	Invited Trustee	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Role and responsibilities of the Adaptation Fund Secretariat	Prepare documentation	Secretariat	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Roles and responsibilities of the Implementing and Executing Entities	Prepare documentation	Secretariat	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Role and responsibilities of the invited Adaptation Fund Trustee	Prepare documentation	Invited Trustee	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Budget of the Adaptation Fund Secretariat from 1 January 2008 to 30 June 2009	Prepare documentation	Secretariat	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Invitation to Implementing Entities to co-operate with the Adaptation Fund Board	Prepare documentation	Secretariat	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 1st meeting
Work Plan of the Adaptation Fund Board	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 1st meeting

TASK	ACTION REQUIRED	RESPONSIBLE	CONSIDER	APPROVAL	DEADLINE
Prepare revisions of documents from the 1 st meeting, as requested by the Board	Prepare documentation	Secretariat	Adaptation Fund Board	As appropriate	4 weeks before 2nd meeting
Legal arrangements between CMP and the invited Adaptation Fund Trustee	Prepare documentation	Invited Trustee	Adaptation Fund Board	CMP	4 weeks before 2nd meeting
Legal status of the Adaptation Fund	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 2nd meeting
Monetization of Certified Emission Reduction credits (CERs)	Prepare documentation	Invited Trustee	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 2nd meeting
Status of Adaptation Fund resources	Prepare documentation	Secretariat	Adaptation Fund Board	Adaptation Fund Board	4 weeks before 2nd meeting
Prepare revisions of documents from the 2 nd meeting, as requested by the Board	Prepare documentation	Secretariat	Adaptation Fund Board	As appropriate	4 weeks before 3rd meeting
Strategic priorities, policies and guidelines	Prepare documentation	Secretariat	Adaptation Fund Board	CMP	4 weeks before 3rd meeting
Options for operationalizing access to the AF resources, including monetization of the CERs	Prepare documentation	Secretariat Invited Trustee	Adaptation Fund Board	Adaptation Fund Board or CMP, as appropriate	4 weeks before 3rd meeting
Draft Report of the Adaptation Fund Board to CMP	Prepare documentation	Chair Secretariat	Adaptation Fund Board	CMP	10 weeks before COP/MOP 4

Table 2
AFB Work Plan Milestones Table

Milestone/key results	Actions	Deadline
Setting up the Fund	Approval of (documents on) rules of procedures, roles and responsibilities of the Board, Secretariat, Trustee, and legal matters and procedures.	June 2008 2 nd AFB Meeting
Agreement on: strategic priorities, policies and guidelines; specific operational guidelines, programming guidance and administrative and financial guidelines; issues remaining from 2 nd Board meeting	Approval of (documents on) adaptation policies and operational guidelines as well as approval of (documents on) guidance to implementing and executing entities	September 2008 3 rd AFB Meeting
Seek CMP Approval	Submit AFB Report to the CMP	December 2008 (CMP4)
Open AF Pipeline of Project submissions	Disseminate in hard and electronic copy project templates for submission	Early 2009
Receive first significant [50] number of project submissions	Review and approve projects	June 2009

REVISED BUDGETS FOR THE ADAPTATION FUND BOARD AND
SECRETARIAT

Introduction

3. 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 interim 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.

4. In response to a request from the Adaptation Fund Board, at its second meeting, and after discussion of the available resources and the need to balance the budget against received funds, the Secretariat has prepared revised budgets for the following items, taking into account the most recent expenditure reports:

- (i) The estimated expenses incurred by the Adaptation Fund Secretariat and Board during the period January 1 to March 31, 2008 June 30, 2008 (Table 1);
- (ii) Status of contributions to the Adaptation Fund trust fund for supporting activities of the Adaptation Fund Secretariat and Board (Table 2):
- (iii) The budget for activities of the Adaptation Fund Secretariat and the Board for the period July 1, 2008 to December 31, 2008, including cost of the senior Adaptation Staff member through June 2010 (Table 3).

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

5. It is estimated that the Secretariat has incurred \$ **739,142** 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**

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

Status of contributions to the Adaptation Fund trust fund for supporting activities of the Adaptation Fund Secretariat and Board

6. As of 16 June 2008, the governments of Australia, Finland, France, Norway and the U.K. have donated some US \$1.67 million to the administrative costs of the Adaptation Fund, the so called, Adaptation Fund trust fund. The current commitments by donors are detailed in **Table 2**. This amount will cover the costs of operations of the Adaptation Fund Secretariat and Board up until 31 December 2008, including the cost of holding a third meeting of the Board in September 2008, assuming all other aspects of the budget are in line with expectations.

Table 2: Contributions to the Adaptation Fund trust fund as of 16 June 2008

Donor	Pledged			code	Paid in			Reimbursement requested d/
	Currency	Amount	USD Equivalent		Currency	Amount	USD Equivalent	
Australia	AUD	200	188.589 a/ c/					pending c/
Finland	EUR	100	155.34 b/		EUR	100	155.34 b/	No
France	EUR	95	147.573 b/		EUR	95	147.573	No
Norway	NOK	1,000,000	201.727 b/		NOK	1,000,000	201.727 b/	No
United Kingd	GBP	500	979.221 a/					Yes
			1,672,449				504.64	

a/ Represents USD equivalent using exchange rates available as of May 12, 2008.
b/ Represents actual USDs purchased after payment by the donor.
c/ Administrative Agreement not yet signed and therefore the pledge is not finalized;
Australia informed the Trustee, however, that they would likely want their contribution to be reimbursed.
d/ The Adaptation Fund is requested to reimburse donors for their contributions.

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

7. The Secretariat estimates a budget of **\$ 973,146** to cover the 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 Meetings of the Board in September 2008; and (iii) travel costs of Secretariat staff to organize and manage the Third Meeting of the Board during the period July 1, 2008 to December 31, 2008. Full details of the budget are in Table 3.

8. A Fourth meeting is planned in December 2008, but can only be held, subject to funds being available to cover the costs of travel and all relevant administrative costs, including preparatory work by Secretariat staff to organize and manage, and for Board Members and Alternates to participate in, the Fourth Meetings of the Board.

9. Please note that this request contains a provision of **\$409,361** to cover staff salary for two years in the Secretariat to ensure that a quality staff member can be recruited on a two-year co-terminous contract. The current budget is proposed by the Secretariat, under the condition that

funding for two additional Secretariat staff, as agreed by the Adaptation Fund Board, are funded as a priority, once funding becomes available.

10. 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 loan of a portable computer and printer, the costs of communications including telephone and internet access as well as the copying of documents, and any missions, as agreed with the Vice-Chair of the Adaptation Fund Board to secure 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 3. Estimated Expenses of the Adaptation Fund Secretariat and Board:
July 1, 2008 to December, 2008**
(includes staff costs from July 1, 2008 to June 30, 2010)

Estimated Expenses of the Board & Secretariat for the Adaptation Fund July 1, 2008 - December 31, 2008 (6 months) (includes new Staff Costs through June 30, 2010)	
Expense Category	
<u>Staff Costs (Salaries and Benefits)</u>	549,236
2 months/year 10 GEF staff (6 months)	139,875
100% 1 Professional-level (24 months)	409,361
<u>Travel @ \$7,500 trip</u>	217,500
Consultant	7,500
4 GEF staff to attend 1 meeting	30,000
Board - 24 eligible members	180,000
<u>Consultants</u>	35,000
<u>General Operations Costs</u>	62,910
Office Space, Equipment, and Supplies	47,910
Support provided to Chair to fulfill duties	15,000
<u>Cost of 1 meeting</u>	71,000
Total	\$935,646

Potentially Available Funds as of July 2	936,059
Balance as of July 2, 2008	413

Donor pledged funds as of July 2, 2008	1,675,201
Expenditure estimates to date	739,142

LEGAL ARRANGEMENTS FOR THE ADAPTATION FUND SECRETARIAT

INTRODUCTION

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

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

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

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

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

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

II. Purpose

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

III. Secretariat Services

11. The Secretariat shall:

- (a) As a dedicated team of officials, provide secretariat services to the Adaptation Fund Board in a functionally independent and effective manner;
- (b) Manage the daily operations of the Fund and report to the Adaptation Fund Board;
- (c) Assist the Board in developing strategies, policies and guidelines for the Fund;
- (d) Ensure timely implementation of the decisions of the Board;
- (e) With respect to the day to day functioning of the Fund, act as liaison between the Board and Parties and implementing and executing entities;
- (f) Make arrangements for the meetings of the Board, including issuance of invitations and preparation of documents and reports of meetings and provide a Secretary of the Board meeting;
- (g) Develop the work programme and annual administrative budget of the Fund and submit them for approval by the Board;
- (h) Ensure the implementation of Adaptation Fund operational policies and guidelines developed by the Board through, inter alia, the development of a project cycle based on criteria to be adopted by the Board;
- (i) Operationalize the project cycle by:
 - undertaking initial review and screening of project proposals to assess conformity with guidelines approved by the Board,
 - presenting project proposals for Board approval,
 - monitoring implementation of progress, and
 - periodically reporting to the Board on portfolio performance;
- (j) Coordinate the formulation and monitor the implementation of projects, ensuring liaison with other bodies as required;
- (k) Liaise as appropriate, with the secretariats of other relevant international bodies;

- (l) Provide the Trustee with all relevant information to enable it to carry out its responsibilities, consistent with the decision 1/CMP.3 and the decisions of the Board;
- (m) Provide services to ensure and facilitate proper communication with parties;
- (n) Perform any other functions assigned to it by the Board.

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

IV. Amendments

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

V. Interpretation

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

VI. Entry into Effect

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

VII. Review

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

OPERATIONAL POLICIES AND GUIDELINES

OUTLINE

1. Background
2. Principles
3. Access Modalities
4. Scope of the Fund
5. Eligibility Criteria
 - i. Entities
 - ii. Countries
 - iii. Projects/Programmes
6. Activities to be Financed
7. Programming Framework
8. Project Cycle and Approval
9. Project Preparation Guidance

ROLES AND RESPONSIBILITIES OF IMPLEMENTING AND EXECUTING ENTITIES

BACKGROUND

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

DEFINITIONS

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

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

PROJECT PREPARATION AND SUBMISSION

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

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

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

PROJECT EXECUTION

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

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

21. The Implementing and Executing Entities are responsible for the management, operation, and use of funds for projects and programs approved by the Adaptation Fund Board.

22. The Implementing and Executing Entities shall ensure appropriate monitoring and independent evaluation of all activities related to projects and programs funded by the Adaptation Fund, and shall provide the necessary financial information to enable independent financial auditing as referred to in paragraph 12.

23. Implementing and Executing Entities shall submit to the Secretariat annual progress reports on all Adaptation Fund financed activities approved by the Board and under their implementation.

ACCOUNTABILITY

24. Implementing and Executing Entities will be accountable to the Adaptation Fund Board and projects and programs under their supervision will be subject to performance management and supervisory systems, based on fiduciary standards to be established by the Adaptation Fund Board, including independent financial audits.

25. If an Executing Entity works through an Implementing Entity, then the Implementing Entity is accountable to the Board for meeting the Board-approved fiduciary and other standards.

26. If an Executing Entity accesses Fund resources directly, then the Executing Entity is directly accountable to the Board for meeting the Board-approved fiduciary and other standards, and, therefore, will be subject to performance management and supervisory systems to be established by the Board.¹

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