

The Adaptation Fund

May 1, 2009

ADAPTATION FUND BOARD

Fifth Meeting

Bonn, March 24 to 27 March, 2009

REPORT OF THE FIFTH MEETING OF THE ADAPTATION FUND BOARD

Introduction

1. The fifth meeting of the Board of the Adaptation Fund of the Kyoto Protocol was held at the “Langer Eugen” UN Campus in Bonn from March 24 to March 27, 2009. The meeting was convened pursuant to Decision 1/CMP.3 adopted at the third Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).
2. The full list of the members and alternates nominated by their respective groups and elected pursuant to Decisions 1/CMP.3 and 1/CMP.4, and present at the meeting, is attached as Annex I to the present report.
3. The meeting was also attended by Ms. Helen Plume, Chair of the Subsidiary Body for Scientific and Technological Advice (SBSTA) of the United Nations Framework Convention on Climate Change (UNFCCC). A list of all participants, including observers present at the meeting, can be found on the Adaptation Fund website at <http://www.adaptation-fund.org/documents.html>.
4. The meeting was broadcast live through a link on the websites of the Adaptation Fund and the United Nations Convention to Combat Desertification (UNCCD). The UNCCD Secretariat had also graciously provided logistical and administrative support for the hosting of the meeting.

Agenda Item 1: Opening of the Meeting

5. The meeting was opened at 9:45 a.m. on Tuesday, March 24, 2009, by the Outgoing Chair, Mr. Richard Muyungi (United Republic of Tanzania, Least-Developed Countries), who welcomed the participants to Bonn and announced the absence of Mr. Elsayed Sabry Mansour (Egypt, Africa) who had to leave Bonn urgently due to the sudden death of his wife and thus could not attend the meeting. The Outgoing Chair said that he would express the condolences of the Board to Mr. Elsayed Sabry Mansour.

Agenda Item 2: Report of the Outgoing Chair on Intersessional Activities

6. The Outgoing Chair thanked the Board for supporting him over the past year, and expressed his gratitude to his Government for having enabled him to serve as the Chair of the Adaptation Fund Board during that time. He also thanked the Adaptation Fund Board Secretariat for its work both during the meetings and intersessionally, as well as the Secretariats of the UNFCCC and the UNCCD for their support in facilitating those meetings. The Governments of Australia, Denmark, Finland, France, Japan, Norway, Sweden, Switzerland and United Kingdom of Great Britain and Northern Ireland, as well as United Nations Environment Programme (UNEP) and the Least Developed Countries Fund (LDCF), were also thanked for their financial contributions. Finally, he congratulated the members and alternates of the Board for their work

over the last year and said that the achievements of the Board had only been made possible by the commitment of the members and alternates. However, he reminded the Board that there still were a number of challenges to be addressed by it, such as the budget deficit of the Adaptation Fund.

7. The Outgoing Chair also reported on his activities during the intersessional period, which had included the completion of the report of the fourth meeting of the Adaptation Fund Board and the drafting of letters of thanks to various bodies and governments that had supported the activities of the Adaptation Fund Board. Letters had also been sent out to Parties to the Kyoto Protocol to solicit expressions of interest for hosting the Board. The Outgoing Chair had invited the Chair of the SBSTA to attend the present meeting and report on the lessons learned through the implementation of the Nairobi Work Programme on Impacts, Vulnerability and Adaptation to Climate Change, and he informed the Board that he had also attended the 25th session of the Governing Council of UNEP to brief that body on the work of the Adaptation Fund Board.

Agenda Item 3: Transition of the Chair and Vice-Chair

8. The Outgoing Chair, Mr. Richard Muyungi, handed over his duties and responsibilities to Mr. Jan Cedergren (Sweden, Western European and Others Group) who had been elected Chair according to the Adaptation Fund Board's rules of procedure at its fourth meeting. He also called upon Mr. Farrukh Iqbal Khan (Pakistan, Non-Annex I Parties) to assume the functions of the Vice-Chair of the Board.

9. Mr. Cedergren said that he was honoured and privileged to chair the Adaptation Fund Board and assured the members and alternates that he would not be an Annex I Chair, but instead would endeavor to be a Chair of the whole Board. He also expressed his thanks and appreciation for the work of the outgoing Chair and reminded the Board of the challenges that lay ahead of it.

10. The Chair listed the most important issues to be resolved by the Board before the CMP in Copenhagen in December 2009. The list included: a) the start of the monetization process; b) the adoption of Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund; c) the adoption of documents and templates to implement those operational policies and guidelines; d) the negotiation of a host country agreement; e) the call for and review of projects proposals from Parties; and f) the start of the process of awarding the first grants. He also reminded the Board that there was no need for perfect solutions, but rather solutions that were workable and which could be adjusted at a later stage.

Agenda Item 4: Organizational Matters

Adoption of the Agenda

11. The Board considered the provisional agenda contained in document AFB/B.5/1/Rev. 2. After a request for a clarification as to why agenda item 9 had been set for consideration on different and non-consecutive sessions, the Chair explained that the work of the Board had been set in that way to provide for the creation of drafting groups to develop text to help resolve outstanding issues under agenda item 9, if that proved necessary.

12. Following a request by Ms. Merlyn Van Voore (South Africa, Africa), the Board agreed to hear her presentation on the World Bank's Pilot Program for Climate Resilience under agenda item 14 'Other Matters'. It was also agreed to discuss possible adjustments to the current Rules of Procedures under that same agenda item.

13. The Board adopted the Agenda as contained in Annex II to the present report.

Organization of Work

14. The Board adopted the organization of work proposed in Provisional Annotated Agenda (AFB/B.5/2). The Chair then asked the Board to sign and hand in to the Adaptation Fund Secretariat the 'Oath of Service' which had been distributed to all members and alternates. He also called upon the members and alternates to orally declare any conflict of interest.

15. Two Board members announced their resignation due to their taking up new assignments and the subsequent conflict of interest that had been created by those assignments. Both were invited by the Chair to state their case before the Board. Ms. Ermira Fida (Albania, Eastern Europe) submitted her resignation due to a new assignment with UNEP in Nairobi. Similarly, Ms. Emily Ojoo-Massawa (Kenya, Africa), had submitted her resignation due to her new involvement with UNEP in Nairobi. Both former members said that would continue to work on issues related to adaptation. Their respective constituencies had been informed of those resignations and were already looking for their replacements.

Status of the Observers

16. The Chair recalled that the observers to the present meeting were situated in a separate room, watching the proceedings as they were being broadcast live through the link on the Adaptation Fund and UNCCD websites. Given the small number of the observers, he asked the Board if it would be prepared to admit them into the meeting room. Some members supported his proposal, including one who pointed out that the observers had not been able to take advantage of the interpretation being provided to the Board members while they watched the video transmission of the meeting in a separate room.

17. However, other members of the Board suggested that it was important to proceed with caution when taking a decision on the admission of the observers into the meeting room; as such a decision might set a precedent for future meetings when a larger number of observers were attending the proceedings. Some members also felt that information of a confidential nature might be compromised accidentally. The Board agreed to suspend its discussion of the issue pending informal consultations among the Board members, and to reconsider the seating of the observers at a future meeting of the Board.

Agenda Item 5: Appointment of New Members and Alternates

18. The Adaptation Fund Board Manager said that the Secretariat was consulting with those constituencies whose members and alternates had resigned recently and hoped that their replacements could be appointed as soon as possible, in accordance with the Rules of Procedures of the Adaptation Fund Board. Mr. Leonard Nurse (Barbados, Small Island Developing States) had joined the Board to succeed Mr. Enele Sopoaga (Tuvalu, Small Island Developing States).

19. Further, the Adaptation Fund Board decided to appoint as a member Mr. Hiroshi Ono (Japan, Annex I Parties), to replace Mr. Naoya Tsukamoto for the remainder of his mandate.

(Decision B.5/1)

Agenda Item 6: Report on the Activities of the Secretariat

20. The Adaptation Fund Board Manager reported on the activities of Adaptation Fund Secretariat during the intersessional period. The main activities included the process of filling the vacancies at the Board who had resigned from Least-Developed Countries, Annex I Parties and Non-Annex I Parties, as well as the *Report of the Fourth Meeting of the Adaptation Fund Board*. The Secretariat had circulated the report to the Board for comments, and had incorporated those comments in the finalized version of the report which had been posted on the Adaptation Fund website as document AFB/B.4/11. The intersessional activities of the Secretariat had also included the preparation of the documents for the present meeting.

Agenda Item 7: CER Monetization

21. The Chair introduced agenda item 7 and said that the discussion of CER monetization would be divided into two parts, one open to the public and one closed. During the open session, the Board heard a presentation by the Trustee on current developments in the monetization process as well as an update on the carbon markets. The Trustee reminded the Board that carbon markets were new markets and that there was no consensus among analysts with respect to the future direction of carbon prices. The current economic crisis had also significantly affected CER prices which appeared to be moving in conjunction with the prices of oil and gas. Given the current economic conditions, it was difficult to predict how those prices would evolve.

22. During the closed session, the Board agreed that the Trustee should continue to monetize CERs, taking into consideration the recommendations of the Trustee, as well as the guidance that had been provided by the Board during its closed session.

Agenda Item 8: Report of the Intersessional Working Groups

23. The Chair reminded the Board that at its fourth meeting it had established two ad hoc working groups, the first of which had the mandate to work on the operationalization of the legal capacity of the Adaptation Fund Board and the second of which was to consider possible ways and means to accelerate the finalization of fiduciary standards for entities accessing funds from the Adaptation Fund. He called upon the chairs of those two ad hoc working groups to report to the Board on their activities during the intersessional period.

24. Mr. Muyungi said that in its consideration of the operationalization of the legal capacity of the Adaptation Fund Board, his working group had also discussed a number of criteria pertinent to the selection of a Party that might wish to host the Adaptation Fund Board. Following those deliberations he had, in consultation with the UNFCCC Secretariat, drafted a letter to all Kyoto Protocol Focal Points, as well as a set of elements of criteria that the Adaptation Fund Board might wish to consider when choosing a host country. Mr. Muyungi circulated copies of both documents to the Board for its consideration, together with document A/AC.237/79/Add.4 of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change which contained, in an annex, a questionnaire for potential host Governments of a permanent secretariat.

25. Following a request by the Chair for clarification of the Board's legal capacity to enter into such a host country agreement, the Chief Legal Advisor of the UNFCCC Secretariat explained that the legal issues involved were complex, and he suggested that the best course of action for the Board would be to consider any offers that were made and then to ask the CMP to endorse any offer that the Board had decided to accept.

26. After a discussion on the process of sending such letters of invitation during the intersessional period, whether the deadline of 26 April 2009 for the submission of expressions of interest should be maintained, and whether it was sufficient to have only sent such letters of invitation to the Kyoto Protocol Focal Points, the Board decided:

- (a) That the Secretariat of the Adaptation Fund Board should reissue the invitation to the Parties to the Kyoto Protocol through their Permanent Missions to the United Nations Headquarters in New York;
- (b) That the date for the submission of expressions of interest in hosting the Adaptation Fund Board should be received by the Secretariat of the Adaptation Fund Board no later than 26 April 2009;
- (c) That notwithstanding the 26 April 2009 deadline for the submission of expressions of interest in hosting the Adaptation Fund Board, in some exceptional cases that deadline might be waived;
- (d) That the ad hoc working group would continue to meet to refine the elements of information that the Board might wish to request from Parties interested in granting legal capacity to, and hosting, the Board, contained in Annex III to the present report;
- (e) That the working group, in refining the elements of criteria referred to above, would give consideration to the questionnaire contained in Annex I of document A/AC.237/79/Add.4 of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change; and
- (f) That during the intersessional period the working group would also consider any expressions of interest in hosting the Adaptation Fund Board and then report back to the Board on those expressions of interest, as well as its other intersessional activities, at the Board's sixth meeting.

(Decision B.5/2)

27. At the final session of the Meeting Mr. Muyungi circulated a text of a timetable for the process for consideration of expressions of interest to confer legal capacity and to host the Adaptation Fund Board. The text of that timetable is contained in Annex IV to the present report.

28. The Board also heard a report of the activities of the ad hoc working group on fiduciary standards from Mr. Julien Rencki (France, Annex I Parties) who said that after due consideration the working group was proposing that the Secretariat of the Adaptation Fund Board be charged with the preparation of a comprehensive report on fiduciary standards which should contain, as a benchmark, the methodologies and requirements of other relevant international organizations in order to have an overview of current practice in the area of fiduciary risk management. The working group also asked that the Secretariat be mandated to prepare guidance on the accreditation of eligible parties seeking to receive funds from the Adaptation Fund, as well as an outline of the implications for entities that received such funds.

29. In the discussion that followed, several members stressed the importance of direct access to the Adaptation Fund. It was also observed that the principal importance of fiduciary standards was to ensure that funds were spent on the projects for which they had been allocated. It

therefore followed that any rules being developed needed to be kept simple to ensure that the fiduciary standards would not become, in and of themselves, a barrier to direct access to funding.

30. The Chair said that importance of the issue meant that a difficult balance had to be achieved between the need for sufficient accountability, to allow funds to flow freely, while not creating so strict a system of accountability that a barrier to funding was created for Parties. He also asked the Secretariat whether it was in a position to produce a paper on fiduciary standards, based on the recommendations of the working group, for the sixth meeting of the Board.

31. The Adaptation Fund Board Manager assured the Chair that the Secretariat would be able to present a paper on fiduciary standards for the sixth meeting of the Board.

32. Following a further discussion of the issue of fiduciary standards, the Chair said that the input from the paper by the Secretariat would be important to the process of finalizing the *Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*. To that end, the paper by the Secretariat on fiduciary standards should focus on concrete ways to facilitate the accreditation of eligible parties to the Adaptation Fund and to assess those elements of the Paris Declaration on Aid Effectiveness that were found to be relevant in supporting the process of direct access to the Adaptation Fund. The text of the concrete proposals was to be incorporated into the Draft Provisional Operational Policies and Guidelines, so that the Board would be in a position for finalize that document at its sixth meeting. The mandate to the Secretariat to prepare the report on fiduciary standards is attached to the present report as Annex V.

33. Following the discussion the Board decided to:

- (a) Request the Secretariat to prepare a report on fiduciary standards and to incorporate that text into a revised Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund; and
- (b) Request the working group on fiduciary standards, chaired by Mr. Julien Rencki (France, Annex I Parties), that had been established in Decision B.4/2, to continue to meet and to collaborate with the Secretariat in preparing the report on fiduciary standards mentioned in paragraph a above.

(Decision B.5/3)

Agenda Item 9: Draft Provisional Operational Policies and Guidelines for Parties to Access the Resources of the Adaptation Fund

34. The representative of the Secretariat introduced document AFB/B.5/4 which contained Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund which had been previously considered by the Board as document AFB/B.3/8 and AFB/B.4/4, and which had been revised in light of the discussions at both the fourth meeting of the Adaptation Fund Board and during the intersessional period. She said that some of the important issues that remained to be considered were the extent to which funding priorities and programmatic funding had to be established in advance, and the possibility of establishing different funding cycles which could entail different approaches, such as the funding of a project development phase in larger projects. The Board needed to consider whether the Secretariat's dedicated team of experts should be augmented to be better prepared to bring projects forward. The document offered two possibilities for ensuring fiduciary management in the case of direct

access: Parties could either be considered as executing or implementing entities or they could be considered as a separate component that was neither. The Board also had to consider the issue of how the disbursement of funds was to be managed under two different scenarios: in those cases where the Board had legal capacity and those cases where it did not.

35. The Chair said that the presentation by the Secretariat had raised a number of important issues in a complex document that still needed to be further refined. He suggested that during its initial discussion the Board consider the general principles at issue in each section of the document and then create ad hoc drafting groups to further consider the issues raised and to present revised text for consideration by the Board.

36. Following the presentations by the drafting groups, described below, the Chair asked the Secretariat to merge the suggestions that had been made into the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* and to present a revised text of the document to the Board for its consideration.

37. The Board considered the revised that had been prepared by the Secretariat during the penultimate and final sessions of its fifth Meeting. Following a discussion the Board decided to adopt the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* contained in Annex VI to the present report on the understanding:

- (a) That the report on Fiduciary Standards being prepared pursuant to Decision B.5/3 above would need to be incorporated into the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* at the sixth meeting of the Board; and
- (b) That a template of project and programme proposal requirements would be attached to the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* as an Annex.

(Decision B.5/4)

Operational Principles, Activities to be Financed and Financing Priorities

38. Following an initial discussion, the Chair said that there appeared to be consensus that the operational principles needed to be maintained in the document in a streamlined form. There was also a consensus to merge the text of the activities to be financed and the funding priorities. He asked the Vice-Chair to work with Mr. Yvan Biot (United Kingdom of Great Britain and Northern Ireland, Annex I Parties), Mr. Luis Santos (Uruguay, Latin America and the Caribbean) and Ms. Van Voore to refine the text of paragraphs 9 to 14 ter of the document in light of the discussion and to report back at a subsequent session of the Meeting.

39. At the following session, the Chair also tasked the drafting group with the consideration of paragraphs 40, 41 and 43 of the document when preparing its revised text.

40. At a subsequent session, Ms. Van Voore presented the drafting group's revised text. During the discussion that followed, several members said that it was important to support concrete regional adaptation activities and to develop templates to facilitate the evaluation of project and programme proposals. The text presented by the drafting group, as orally amended by the Board, was subsequently merged into the revised text of the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*.

Financing Windows and Country Eligibility

41. Following an initial discussion of the number of required financing windows as well as the different limits for the funding windows and the desirability of funding caps, the Chair asked Mr. Jeffery Spooner (Jamaica, Latin America and the Caribbean) to work with Mr. Hans Olav Ibrekk (Norway, Western European and Others Group) and Mr. William Kojo Agyemang-Bonsu (Ghana, Non-Annex I Parties) to refine the text of paragraphs 17, 18 and 21 of the document and to report back at a subsequent session of the Meeting.

42. Following a second round of discussions on possible modalities for project preparation grants, the appropriate size and number of projects and the possible need for caps when considering the allocation of resources, the Chair asked the drafting group to further refine the text of paragraphs 17 to 21 of the document and report back to the Meeting.

43. At the following session, Mr. Spooner presented a revised text of paragraphs 17 to 21 for consideration by the Board. In his presentation Mr. Spooner said that the drafting group had simplified the financing windows described in paragraph 17, which now contained only two options: small-size projects and programmes for requests of funding of up to US \$ 1,000,000 and other projects and programmes with proposals for funding of over US \$ 1,000,000. He also said that the drafting group had considered the issue of project and programme preparation grants, which was contained in paragraph 18 of the document. The drafting group suggested that in some cases it might be possible to approve such grants upon the submission of a concept note to the Adaptation Fund Board.

44. Following a discussion of the revised text during which the Board considered the desirability of allowing for project funding grants on the basis of concept notes, and the need for additional clarification of how the Board was to encourage Parties to propose regional activities, the Board agreed to delete paragraph 18 and to add an additional sentence to the end of paragraph 21 to the effect that the Board might decide after one or two years of Adaptation Fund activity, and on the basis of an assessment of the amount of Adaptation Fund resources being effectively used to fund regional activities, to allocate a separate pool of resources for regional activities. The text presented by the drafting group, as orally amended by the Board, was subsequently merged into the revised text of the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*.

Implementing and Executing Entities: Accreditation Process for Implementing Entities

45. During the initial discussion of implementing and executing entities it was observed that those entities had already been defined in paragraphs 2(j) and 2(k) of the *Rules of Procedure of the Adaptation Fund Board* (Annex I of document AFB/B.5/Inf.2). However, several members observed that the definitions contained in the rules of procedure were provisional and that the CMP had already been informed that it might be necessary to reconsider them in order to assure the full functioning of the direct access mechanism. Following a discussion of the direct access mechanism and the modalities for its implementation, the Chair asked Mr. Biot, Mr. Anton Hilber (Switzerland, Western European and Others Group), Mr. Octavio Perez Pardo (Argentina, Latin America and the Caribbean), and Mr. Agyemang-Bonsu to form a drafting group to reconsider the text of paragraphs 22 to 26 and paragraphs 30 to 36 of the document, and to present a revised text to the Meeting for its consideration.

46. At the subsequent session, Mr. Agyemang-Bonsu presented the suggestions of the drafting group for a revised text on implementing and executing entities and on the accreditation of implementing entities and circulated a chart to the Board to illustrate the differences between national and multilateral implementing entities. He said that given the changes being suggested to the definitions of implementing and executing entities, it would be necessary to reconsider the definitions of implementing and executing entities found in the Rules of Procedure of the Adaptation Fund Board. He also said that it might be necessary for the Board to inform the CMP of how those proposed changes met the instructions to the Board found in paragraph 29 of Decision 1/CMP.3.

47. Following a discussion of the revised text, the Chair said that there appeared to be some inconsistencies between the text being proposed by the drafting group and the text being proposed by the drafting group on the project cycle, project cycle management fees and disbursement. The Chair asked the two drafting groups to confer and harmonize their texts and to submit the harmonized text to the Secretariat for incorporation into the revised Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund that was being prepared by the Secretariat for the Board's consideration. The text presented by the drafting groups, as orally amended by the Board, was subsequently merged into the revised text of the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*.

Definitions of Adaptation Projects and Programmes and Full Costs of Adaptation

48. Following a discussion of paragraphs 30 to 43 of the document the Board decided to delete paragraph 42 and to ask the drafting group on operational principles, activities to be financed and financing priorities to further refine paragraphs 40, 41 and 43 of the document, with a view to presenting a revised text of those paragraphs to the Board for its consideration. The further work of that drafting group is described above.

The Project Cycle, Project Cycle Management Fees and Disbursement

49. Following a discussion of the modalities for the review of projects during the project cycle, the Chair asked Mr. Luis Paz Castro (Cuba, Latin America and the Caribbean), Ms. Dinara Gershinkova (Russia, Eastern Europe), Mr. Muyungi and Mr. Rencki, to form a drafting group to refine the options that had been presented to the Board in the document and to provide, at a subsequent session of the meeting, a revised text of paragraphs 44 to 59 as well as paragraphs 37 on project cycle management fees and paragraphs 60 to 72 on disbursement.

50. At subsequent sessions of the meeting, the Board heard presentations on the work of the drafting group by both Mr. Rencki and Mr. Muyungi. The drafting group proposed three modalities for the project cycle: projects proposed by legal entities that had been accredited *ex-ante* by the Board as implementing entities, projects proposed by legal entities that had not been accepted *ex-ante* by the Board as implementing entities, and projects proposed directly to the Board by a Party. The drafting group also submitted two review and approval processes, one being for small-size projects and programmes of under US \$ 1,000,000 and the second for regular projects and programmes of over US \$ 1,000,000.

51. In discussion that followed, several members expressed their concern with the suggestion that projects and programmes be endorsed by the UNFCCC Focal Points of the recipient countries, as that might create a conflict of interest for some Board members, as well as administrative difficulties for the countries concerned. There were also divergent views expressed on the role of the Secretariat in screening and reviewing project and programme proposals and

some members were concerned that the Secretariat might not have been allocated sufficient time to complete that work. Some members also felt that it was important for the Board to have some experience with the approval of project and programme proposals before allowing submission of such proposals to the Secretariat on a rolling basis. It was agreed that all the project proposals submitted to the secretariat would be posted in the Adaptation Fund website, following the example of the CDM Executive Board.

52. The Chair asked the drafting group to meet with the drafting group on implementing and executing entities to resolve inconsistencies between the two drafting groups' visions of implementing and executing entities and to provide a merged text to the Secretariat for inclusion in a revised version of the *Draft Operational Policies and Guideline for Parties to Access the Resources of the Adaptation Fund*. The text presented by the drafting groups, as orally amended by the Board, was subsequently merged into the revised text of the *Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*.

Agenda Item 10: Report by the SBSTA Chair on the Lessons Learned through the Implementation of the Nairobi Work Programme on Impacts, Vulnerability and Adaptation to Climate Change

53. The Chair of the Adaptation Fund Board invited Ms. Helen Plume, Chair of the SBSTA, to report on the lessons learned through the implementation of the Nairobi Work Programme on Impacts, Vulnerability and Adaptation to Climate Change (NWP).

54. In her presentation, Ms. Plume said that the SBSTA had been mandated by the Conference of the Parties to coordinate the implementation of the NWP which was being implemented by Parties, intergovernmental and non-governmental organizations, the private sector, communities and other stakeholders, and which engaged up to 140 different stakeholders. The objective of the programme was to assist all Parties, in particular developing countries, the least developed countries and the small island developing states, to improve their understanding of impacts, vulnerability and adaptation to climate change, and to make informed decisions on practical adaptation actions and measures to respond to climate change based on sound scientific, technical and socioeconomic grounds.

55. The programme included the following nine areas of work: (a) methods and tools, (b) data and observation, (c) climate modeling, scenarios and downscaling, (d) climate related risks and extreme events, (e) socio-economic information, (f) adaptation planning and practices, (g) research, (h) technologies for adaptation, and (i) economic diversification. The various modalities of the programme's work involved workshops and meetings, compendiums and web-based resources, reports and technical papers.

56. The Chair of the SBSTA also drew the attention of the Board to the relevant outputs from the implementation of the NWP that might be supportive to the work of the Board. These included the reports on mandated workshops and experts meetings, compilations of submissions by Parties and organizations, and associated synthesis reports, as well as calls for action, compendiums of methods and tools to evaluate impacts, vulnerability and adaptation to climate change, adaptation assessments, adaptation planning, and methods and tools developed and shared by NWP partners.

57. She said that the Adaptation Fund Board might wish to draw upon the technical support of the NWP in its efforts to prioritize adaptation programmes. The Adaptation Fund Board might also wish to seek the advice of NWP on gaps and needs identified by adaptation stakeholders, as

well as information on organizations, institutions and experts actively engaged in adaptation activities. The Chair of the SBSTA encouraged the Board to explore ways in which the NWP could assist the Adaptation Fund in its operations.

58. Following a series of questions and comments by Board members about the importance of linking the websites of the Adaptation Fund and the NWP, as well as the status of the roster of experts and the role of the NWP in the implementation of concrete adaptation projects, the Chair of the SBSTA explained that the NWP did not implement adaptation projects, but served as an information base that provided advice and assistance to stakeholders involved in adaptation activities on the ground. She also said that the roster of experts was in the process of being developed. While it was important to link that activity to UNEP's roster of experts, it was also important not to duplicate what was happening elsewhere, as it was the intention of the NWP to build upon work that was already in place. However, one way of furthering cooperation between the Adaptation Fund and the NWP would be to consider making a link between the websites of the two organizations.

Agenda Item 11: Establishing Board Committees

59. The representative of the Secretariat introduced document AFB/B.5/5 which contained the draft terms of reference for committees of the Board that had been previously presented to the Board at its third meeting as document AFB/B.3/12 and had been reconsidered by the Board at its fourth meeting as document AFB/B.4/5. She reminded the Board that the number of suggested committees had been reduced from four to two, and that the document contained draft terms of reference for both the Ethics and Finance Committee and the Strategic Projects and Programmes Committee.

60. In the discussion that followed, a number of members questioned the current wording of the terms of reference, as well as the need to establish those two committees at the present meeting. One member also reminded the Board that the example of the sub-committees of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol should also be taken into account.

61. The Chair observed that there appeared to be consensus among the Board on the need for such committees in the future, as well as the need to further refine the terms of reference for the committees. He also observed that the Board was in agreement that the second committee should be called the Project and Programme Review Committee instead of the Strategic Project Projects and Programmes Committee.

62. The Board decided to

- (a) Create an Ethics and Finance Committee and a Project and Programme Review Committee at its sixth Meeting;
- (b) Request the Secretariat to revise the terms of reference of the Ethics and Finance and Project and Programme Review Committees, as well as the general terms of reference for Board committees; and
- (c) Request the Secretariat to present the revised terms of reference of the above committees to the Board at its sixth Meeting.

(Decision B.5/5)

Agenda Item 12: Adaptation Fund Board and Secretariat Budget for January-June 2009 and Elements for a Work Plan for 2009

63. The representative of the Secretariat introduced the Proposed Budget for the Adaptation Fund Board and Secretariat for the period January 1 to June 30, 2009 (AFB/B.5/6 Rev.2) as well as the Proposed Budgetary Expenses for the Adaptation Fund Board and Secretariat for January 1 to December 31, 2009, and a revised version of the Status of the Administrative Trust Fund Resources (AFB/B.5/7 Rev.1), which had been circulated for reference purposes only.

64. Further discussion under the agenda item was held in closed session.

65. Following the discussion, the Board decided to:

- (d) Approve the amount of US \$754,760 for the budget to cover the costs of the operations of the Adaptation Fund Board and Secretariat over the period of January 1 to June 30, 2009, as contained in Annex VII to the present report;
- (e) Note the amount of US \$398,370 to cover the costs of the Adaptation Fund Board Manager for two years already approved in the 2008 budget;
- (f) Note that the Adaptation Fund Board Manager had taken up her duties on February 23, 2009;
- (g) Consider that the amount of US \$ 700,000 represented an outstanding debt to the Least Developed Countries Fund (LDCF);
- (h) Authorize the Trustee to repay the loan in paragraph (g) above, subject to the availability of funds from the initial monetization of CERs;
- (i) Consider that the amounts contributed by the Governments of Australia and the United Kingdom of Great Britain and Northern Ireland, and by the United Nations Environment Programme represent an outstanding debt; and
- (j) Authorize the Trustee to repay the loans in paragraph (i) above or transfer the corresponding funds to other trust funds, according to donor decision, and subject to the availability of funds from the initial monetization of CERs.

(Decision B.5/6)

66. At a subsequent session the Board also considered the proposed elements for a 2009 Work Plan for the Adaptation Fund Board and Secretariat contained in document AFB/B.5/9 which had been considered by the Board as Part I of document AFB/B.Int.4-5/1. Following a discussion the Board agreed to delete paragraph 2 (c) from the proposed Work Plan and to postpone further consideration of the proposed work plan. However, due to the pressure of time the Board was unable to further consider the issue at its fifth Meeting.

Agenda Item 13: Letterhead and Logo for the Adaptation Fund

67. The Adaptation Fund Board Manager introduced three alternative letterhead designs contained in document AFB/B.5/8 and invited the Board to select one or more of them for official use. She also proposed that the Board authorize the Secretariat to organize and oversee a contest for designing a logo for the Adaptation Fund, once the Fund's initial CER monetization had taken place. She suggested that a cash prize could be offered and stressed that the contest would not only produce a logo design but would also raise awareness about the existence of the Fund.

68. Following a discussion during which some members expressed the wish to defer consideration of the letterhead for official use until after a host country agreement had been signed or a logo had been selected, the Board decided:

- (a) To defer consideration of the letterhead until after a logo had been selected; and
- (b) To request the Secretariat to organize a competition to come up with the design for the Adaptation Fund logo.

(Decision B.5/7)

Agenda Item 14: Other Matters

Pilot Program for Climate Resilience

69. The Board heard a presentation by Ms. Van Voore on the work of the World Bank's Pilot Program for Climate Resilience (PPCR) during which she reminded the Board that she was briefing the Board as the Board's representative on the PPCR Sub-Committee and was not making an official report of the operations of the PPCR sub-committee. The purpose of the PPCR was to explore practical ways to mainstream climate resilience into core development planning and budgeting, building on National Adaptation Programs of Action (NAPAs). She also informed the Board that the PPCR had developed a climate vulnerability indicator methodology that might be of interest to the Board, and that it had grappled with the issues of funding through loans and grants.

70. She also said that the World Bank had announced that eight countries would be offered funding through the PPCR and that one additional country from the Middle East and North Africa region would be selected, and that a regional project, pending inputs from an eight-member Expert Group, would be considered for either the Caribbean or the Pacific regions.

71. Following the presentation, the Board decided to:

- (a) Request Ms. Van Voore to continue to represent the Adaptation Fund Board at the meetings of the Sub-Committee of the Pilot Program for Climate Resilience;
- (b) Request from the PPCR, through Ms. Van Voore, a formal response on the modalities of financing in the PPCR and the methods for deciding on when to issue grants and loans; and

- (c) Request Ms. Van Voore to explore, with the PPCR Sub-Committee, possible ways in which the Adaptation Fund Board could collaborate in finalizing the climate vulnerability index.

(Decision B.5/8)

Rules of Procedures of the Adaptation Fund Board

72. The Board also took up the issue of the need to make changes to the Rules of Procedure of the Adaptation Fund Board.

73. One member suggested that it would be necessary to amend the definitions of Implementing Entities and Executing Entities, which were contained in the Rules of Procedure of the Adaptation Board, in light of the discussion that had taken place under agenda item 9. However, in the discussion that followed some members asked whether the Board had the necessary authority to make those changes itself or whether it needed to seek the approval of the CMP. It was decided that the Board would make any necessary changes to rules of procedure, and any consequential changes to other documents, and to inform the CMP by letter or those changes.

(Decision B.5/9)

Agenda Item 15: Date and Venue of the Sixth Meeting of the Adaptation Fund Board

74. The Adaptation Fund Board Manager explained that it had been very difficult to schedule meetings of the Board, given the conflicting timetables of meetings being held by other organizations dealing with climate change. She informed the Board that she had met with Mr. Luc Gnacadja, Executive Secretary of the UNCCD, to thank him for the provision of the venue and resources for the Adaptation Fund Board meetings, and that the Executive Secretary had expressed interest in continuing hosting the Adaptation Fund Board meetings at the UNCCD premises. The Board warmly thanked the Executive Secretary of the UNCCD for providing logistical and administrative support for hosting the meetings of the Board.

75. Following a presentation of possible dates and venues for the remaining meetings of the Adaptation Fund Board during 2009, the Board decided to:

- (a) Hold its sixth meeting in Bonn, from June 15–17, 2009;
- (b) Hold its seventh meeting in Bonn, from September 14–16, 2009; and
- (c) Hold its eighth meeting in Bonn, from November 16–18, 2009.

(Decision B.5/10)

Agenda Item 16: Adoption of the Report and Closure of the Meeting

76. The Chair thanked the Board for its hard work during the present meeting. He said the Board had almost finalized the Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, and had initiated the monetization process. Two

committees had been established which would become operational at the sixth meeting of the Board and a process had been initiated that would give the Board legal capacity and the Board was actively seeking the country to host the Adaptation Fund Board. The Board had demonstrated its capacity to resolve difficult issues and a budget had been approved for January 1 to June 30, 2009. He said that once project proposals were received the Board would then have achieved the operationalization of the Adaptation Fund.

- 77.** Following the customary exchange of courtesies, the Chair declared the meeting closed at 5:35 p.m.

ANNEX I**MEMBERS AND ALTERNATES PRESENT AT THE FIFTH MEETING**

| MEMBERS | | |
|---------------------------|-----------------------------|-----------------------------------|
| Name | Country | Constituency |
| Mr. Cheikh Ndiaye Sylla | Senegal | Africa |
| Ms. Merlyn Van Voore | South Africa | Africa |
| Mr. Mohammed Al-Maslamani | Qatar | Asia |
| Mr. Jerzy Janota Bzowski | Poland | Eastern Europe |
| Mr. Jeffery Spooner | Jamaica | Latin America and the Caribbean |
| Mr. Luis Santos | Uruguay | Latin America and the Caribbean |
| Mr. Anton Hilber | Switzerland | Western European and Others Group |
| Mr. Jan Cedergren | Sweden | Western European and Others Group |
| Mr. Richard Muyungi | United Republic of Tanzania | Least-Developed Countries |
| Mr. Julien Rencki | France | Annex I Parties |
| Mr. Hiroshi Ono | Japan | Annex I Parties |
| Mr. Farrukh Iqbal Khan | Pakistan | Non-Annex I Parties |

| ALTERNATES | | |
|---------------------------------|--|-----------------------------------|
| Name | Country | Constituency |
| Mr. Damdin Davgadorj | Mongolia | Asia |
| Ms. Tatyana Ososkova | Uzbekistan | Asia |
| Ms. Dinara Gershinkova | Russian Federation | Eastern Europe |
| Ms. Iryna Trofimova | Ukraine | Eastern Europe |
| Mr. Luis Paz Castro | Cuba | Latin America and the Caribbean |
| Mr. Octavio Perez Pardo | Argentina | 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 |
| Ms. Vanesa Alvarez-Franco | 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 |

| |
|-----------------|
| ANNEX II |
|-----------------|

ADOPTED AGENDA OF THE FOURTH MEETING

1. Opening of the Meeting
2. Report of the Outgoing Chair on Intersessional Activities
3. Transition of the Chair and Vice-Chair
4. Organizational Matters
 - (a) Adoption of the Agenda
 - (b) Organization of Work
5. Appointment of New Members and Alternates
6. Report on the Activities of the Secretariat
7. CER Monetization
8. Report of the Intersessional Working Groups
9. Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund
10. Report by the SBSTA Chair on the Lessons Learned through the Implementation of the Nairobi Work Programme on Impacts, Vulnerability and Adaptation to Climate Change
11. Establishing Board Committees
12. Adaptation Fund Board and Secretariat Budget for January-June 2009 and Elements for a Work Plan for 2009
13. Letterhead and Logo for the Adaptation Fund Board
14. Other Matters
 - *Pilot Program for Climate Resilience*
 - *Rules of Procedures of the Adaptation Fund Board*
15. Date and Venue of the Sixth Meeting of the Adaptation Fund Board
16. Adoption of the Report and Closure of the Meeting

ANNEX III

Elements on information that the Adaptation Fund Board is requesting from Parties interested in granting legal capacity to, and hosting, the Adaptation Fund Board

Legal Framework

1. The nature of the headquarters agreement and other arrangements to be established;
2. The Privileges and Immunities to be conferred on the Adaptation Fund Board, its members, alternate members, and officials.

Logistical and related financial issues

3. The facilities to be made available for the meetings and work of the Adaptation Fund Board and its officials, including office space, meeting rooms and availability of general services (security, maintenance, etc);
4. The duration of the arrangements regarding the facilities for the meetings and work of the Adaptation Fund Board and its officials;
5. The basis for placing the facilities at the disposal of the Adaptation Fund Board and its officials, such as:
 - a. Ownership by the Adaptation Fund Board (through donation or purchase);
 - b. Ownership by the host Government, without rent;
 - c. Ownership by the host Government, with rent and amount of such rent;
6. Who would be responsible for the payment of:
 - a. Major maintenance and repairs of the facilities;
 - b. Normal maintenance;
 - c. Utilities, including telecommunication, electricity, water facilities, security, etc;
7. The extent to which the facilities would be furnished and equipped by the host Government;
8. Whether the facilities to be provided to the Adaptation Fund Board and its officials meet the security requirements of the United Nations.

Local facilities and conditions

9. Description of the following facilities and conditions:
 - a. Diplomatic representation in the host city;
 - b. Presence of international organizations;
 - c. Availability of international meeting facilities and the conditions for their use (free of charge, rent, etc.);
 - d. International transport facilities;
 - e. Local transport facilities;
 - f. Hotel facilities;

- g. Local availability of trained personnel to service the meetings and work of the Adaptation Fund Board and its officials, taking into account language requirements and other skills;
- h. Health facilities and access to them by the Adaptation Fund Board members, alternate members and officials;
- i. Facilities for transfer of funds to and from foreign countries.

Other relevant information

10. Length of time required by the host Government to process any travel or visa requirements for the Adaptation Fund Board members, alternate members and officials;

11. Any additional contributions to be made by the host Government to meet the operating costs or to defray meeting-services expenses of the Adaptation Fund Board and its officials;

12. Any other information, which the potential host Government may deem relevant.

ANNEX IV**Process for consideration of the Expressions of Interest to confer legal capacity and to host the Adaptation Fund Board**

Proposal by the Chair of the Working Group on AFB Legal Capacity – Richard Muyungi
24 March 2009

| Time Line | Action | Expected outcome |
|---|--|--|
| December 2008 CMP 4 | CMP decision that AFB be conferred with legal capacity | 1/CMP.4 |
| December 2008 4 th Board meeting | Board establish Working Group to work further on issue of AFB legal capacity | Working Group established |
| February 2009 | Letter sent by AFB Chair to Kyoto Protocol Parties to submit Expressions of Interest to host AFB | Deadline for submissions 26 April 2009 |
| March 2009 | Board to: (1) Working Group update to Board (2) Agree on criteria for evaluation of offers to host AFB | Criteria for evaluation of offers approved by Board |
| April 2009 | Secretariat to send reminder letters to Kyoto Protocol Parties to UN Missions in New York All offers received by the secretariat by deadline - 25 April 2009 | |
| May 2009 | AFB WG to review and consider the offers in accordance with criteria agreed by the Board | Report by the WG to the Board on the review of the offers to host the AFB Recommendation to the AFB Chair to invite the Parties who have submitted offers to make presentation to the AFB |
| June 2009 – 6 th AFB meeting | Kyoto Protocol Parties who have submitted Expressions of Interest invited to AFB meeting to: (1) Make presentation to the Board (2) Answer questions by the Board concerning their offers | |
| | AFB WG to: (1) Consider further the offers, presentations and responses to Board's questions (2) Consider and submit recommendation for final decision on offers host the AFB to the Board | WG's recommendation to Board for a decision on offer to host AFB |
| September 2009 – 7 th AFB meeting | Board to: (1) Consider WG's recommendation on the offers to host the AFB; (2) Take final decision on the offers to host AFB for endorsement by CMP | Final decision by the Board on the offers to host AFB, to be submitted to CMP for endorsement |

| | | |
|-------------------------------|---|--|
| December CMP 5 | CMP 5 to: (1) Endorse Board's decision on offer to host AFB; (2) Request the Board to negotiate and conclude draft Headquarters Agreement with host government to host the AFB for endorsement at CMP 6 | |
| January to March 2010 | AFB WG to prepare draft Headquarters Agreement with host government | Draft for review by the Board |
| March 2010 AFB meeting | WG to: (1) Update Board on progress concerning preparation of draft Headquarters Agreement; (2) Present draft to Board for comments | Board to provide comments on the status of preparation of, and comments on, the draft Headquarters Agreement |
| April to June | AFB WG to continue preparation of draft Headquarters Agreement with host government | Revised draft Headquarters Agreement |
| June 2010 AFB meeting | WG to update Board on status of preparation of the draft Headquarters Agreement Board to review and provide comments to the revised draft Headquarters Agreement | Board to provide comments on revised draft Headquarters Agreement |
| July to September 2010 | WG to finalize draft Headquarters Agreement | |
| September 2010 AFB meeting | Board to consider and endorse final draft Headquarters for submission to CMP 6 | Final draft Headquarters Agreement approved for submission to CMP 6 |
| December 2010 CMP 6 | CMP to: (1) Approve draft Headquarters Agreement (2) Request Board to organize signing ceremony for the Headquarters Agreement | Approved Headquarters Agreement for signature |
| Early 2011 | Signing Ceremony for the Headquarters Agreement | |

Working Group on Legal capacity

1. Mr. Richard Muyungi (Chair), United Republic of Tanzania, Least Developed Countries
2. Mr. Luis Santos, Uruguay, Latin America and Caribbean
3. Mr. Mohammed Al-Maslamani, Qatar, Asia
4. Mr. Amjad Abdulla, Maldives, Small Island Developing States
5. Mr. Anton Hilber, Switzerland, Western European and Others Group
6. Mr. Jerzy Janota Bzowski, Poland, Eastern Europe
7. Ms. Merlyn Van Voore, South Africa, Africa

Experts

8. UNFCCC Legal Office
9. UN HQ legal Office
10. CMP Presidency Representation

Report of the working group on Fiduciary Standards

Background

1. A working group was created at the 4th Adaptation Fund Board meeting to look at ways to accelerate the selection by the Board of fiduciary standards, including consideration of the possible ways and means on how to implement those standards. Fiduciary standards are crucial to ensure the efficiency, accountability and credibility of the Adaptation Fund.
2. This working group, after discussion, decided to ask the Adaptation Fund Board Secretariat to prepare some documents in order to help the Board going forward at its next meeting.
3. The Board further requested the Secretariat to take into account relevant elements of the Paris Declaration on Aid Effectiveness in the preparation of these documents. This paper is a formal request to the Adaptation Fund Board Secretariat.

Objective

4. The Board first needs a comparative benchmark of relevant institutions' methodologies and requirements to provide an overview of what others do in the area of fiduciary risk management. In this respect, **the working group asks the Adaptation Fund Board Secretariat to prepare a comprehensive report, presenting the existing approaches used today**, notably in the multilateral development banks, UNDP, UNEP, GEF, FAO, IFAD, Multilateral Funds for Aids and Malaria, Multilateral Fund of the Protocol of Montréal and the Red Cross for example. Other institutions could be studied, in particular, bilateral and regional institutions, if relevant. The different modalities of "direct access" should be considered for Parties and Implementing Entities. To this end, the Secretariat can, in particular, build on the work undertaken by the Crown Agents (CAL) paper presented to the Board at its 4th meeting and by taking fully into account the discussion and the views expressed by the Board at the time of its presentation to the Adaptation Fund Board.
5. **The Secretariat should also present concrete ways to make accreditation of implementing entities possible and to implement fiduciary management.** In particular, the report should propose a fiduciary and management system for consideration by the Adaptation Fund Board of concrete procedures to allow the Board to ascertain the fiduciary standards of applicants, required to enable them to access funding from the Adaptation Fund. The report should propose the nature of Secretariat services to be required by the Adaptation Fund Board in ascertaining the proposed standards and approving the proposals particularly in the case of direct access by the eligible parties.
6. **This report should also make an assessment of possible technical and financial implications of establishing the proposed fiduciary standards** for the proponents.
7. The report will constitute an annex to the *Draft Operational Policies and Guidelines for Parties to Access Resources of the Adaptation Fund* and shall also provide operational text on fiduciary standards that can be incorporated into a revised version on the named Draft.
8. The report shall be ready by May 15, 2009.

The Adaptation Fund

AFB/B.5/4 Rev.2
March 31, 2009

Adaptation Fund Board
Fifth Meeting
Bonn, March 24–27, 2009

Agenda Item 9

ANNEX VI

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

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Introduction

1. The Kyoto Protocol (KP), in its Article 12.8, states that “The Conference of the Parties serving as the meeting of the Parties to this Protocol shall 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.”¹ This is the legal basis for the establishment of the Adaptation Fund.
2. At the seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), held in Marrakech, Morocco, from October 29 to November 10, 2001 (COP7), the Parties agreed to the establishment of the Adaptation Fund (the Fund).²
3. In Montreal, Canada in November 2005³ and Nairobi, Kenya in December 2006,⁴ the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), decided on specific approaches, principles and modalities to be applied for the operationalization of the Fund.
4. In Bali, Indonesia, in December 2007, the CMP decided that the operating entity of the Fund would be the Adaptation Fund Board (the Board), serviced by a Secretariat and a Trustee.⁵ Parties invited the Global Environment Facility to provide secretariat services to the Adaptation Fund Board (the Secretariat), and the World Bank to serve as the trustee (the Trustee) of the Fund, both on an interim basis.
5. In particular, Decision 1/CMP.3, paragraph 5(b), lists among the functions of the Board 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 CMP.
6. In Poznan, Poland, in December 2008, through Decision 1/CMP.4, the Parties adopted:
 - (i) the Rules of Procedures of the Adaptation Fund Board;
 - (ii) the Memorandum of Understanding between the CMP and Council of the Global Environmental Facility regarding secretariat services to the Adaptation Fund Board, on an interim basis;
 - (iii) the terms and conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as trustee for the Adaptation Fund, on an interim basis; and
 - (iv) the strategic priorities, policies and guidelines of the Adaptation Fund.
7. In Decision 1/CMP.4, paragraph 11, the CMP 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. Relevant decisions of the CMP in this regard are attached at the Annex I.
8. This document, in response to these decisions of the CMP, proposes operational policies and guidelines for eligible developing country Parties to access resources from the Fund. *The Operational*

¹ See FCCC/KP/*Kyoto Protocol*.

² See Decision 10/CP.7, “*Funding under the Kyoto Protocol*”.

³ See Decision 28/CMP.1, “*Initial guidance to an entity entrusted with the operation of the financial system of the Convention, for the operation of the Adaptation Fund*” in Annex I to this document.

⁴ See Decision 5/CMP.2, “*Adaptation Fund*”, in Annex I to this document.

⁵ See Decision 1/CMP.3, “*Adaptation Fund*”, in Annex I to this document.

Policies and Guidelines are expected to evolve further based on the experience acquired through the operationalization of the Fund and subsequent decisions of the Board and reflecting future guidance from the Parties.

Definitions of Adaptation Projects and Programmes

9. The Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes.

10. A concrete adaptation project is defined as a project aimed at addressing the adverse impacts of and risks posed by climate change. Adaptation projects can be implemented at the community, national and transboundary level. Projects concern discrete activities with concrete outcomes that are more narrowly defined in scope, space and time.

11. An adaptation programme is a process, a plan or an approach to be adopted when the impacts of climate change cannot be addressed within the scope and domain of an individual project. The Board will provide further guidance on the adaptation programmes, its aims and objectives in the future on the basis of lessons learned.

Operational and Financing Priorities

12. The overall goal of all adaptation projects and programmes financed under the Fund will be to support concrete adaptation activities that reduce adverse impacts of and risks posed by climate change facing communities, countries, and sectors. *The Fund will not finance business-as-usual projects that do not implement concrete actions to reduce the adverse impacts of climate change.*

13. Provision of funding under the Adaptation Fund will be based on, and in accordance with, the *Strategic Policies and Guidelines* adopted by the CMP, attached as Annex II.

14. Funding will be provided on full adaptation cost basis of projects and programmes to address the adverse effects of climate change.⁶ Full cost of adaptation means the costs of concrete adaptation activities to be implemented to address the adverse impacts of and risks posed by climate change.

15. In developing projects and programmes to be funded under the Fund, eligible Parties may wish to consider the guidance provided in 5/CP.7. Parties are also encouraged to consult information included in reports from the Intergovernmental Panel on Climate Change (IPCC) and information generated under the Nairobi Work Programme (NWP) on Impacts, Vulnerability and Adaptation to Climate Change.⁷

16. Decisions on the allocation of resources of the Board shall take into account the criteria outlined in the *Strategic Priorities and Guidelines of the Adaptation Fund*, adopted by the CMP, specifically:

- (i) level of vulnerability;
- (ii) level of urgency and risks arising from delay;
- (iii) ensuring access to the Fund in a balanced and equitable manner;
- (iv) lessons learned in project and programme design and implementation to be captured;
- (v) securing co-benefits to the extent possible, where applicable;
- (vi) maximizing multi-sectoral or cross-sectoral benefits; and
- (vii) adaptive capacity to adverse effects of climate change.

⁶ Decision 5/CMP.2, paragraph 1 (d).

⁷ IPCC Assessment Report 4, see <http://www.ipcc.ch/ipccreports/assessments-reports.htm> and NWP see http://unfccc.int/adaptation/sbsta_agenda_item_adaptation/items/3633.php.

17. Resource allocation decisions will be guided by the paragraphs 8 and 10 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.

18. The Board will review its procedures for allocating resources of the Adaptation Fund among eligible Parties at least every three years, and/or as instructed by the CMP, including an assessment of the amount of resources that can be allocated to regional activities.

Project/ Programme Proposal Requirements

19. To access Fund resources, a project will have to be in compliance with the eligibility criteria contained in paragraph 15 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund Board* and using the relevant templates.

Financing Windows

20. Parties may undertake adaptation activities under the following categories:

- (i) Small-size projects and programmes (proposals requesting up to \$1 million); and
- (ii) Projects and programmes (proposals requesting over \$1 million).

Eligibility Criteria

Country Eligibility

21. The Fund shall finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change.

22. Paragraph 10 of the Strategic Priorities and Guidelines of the Adaptation Fund provides the country eligibility criteria.

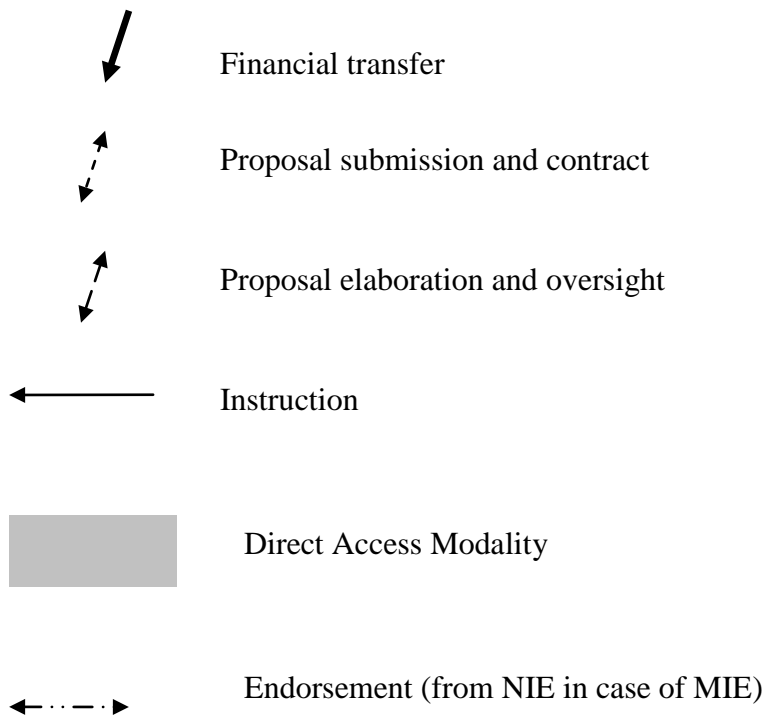
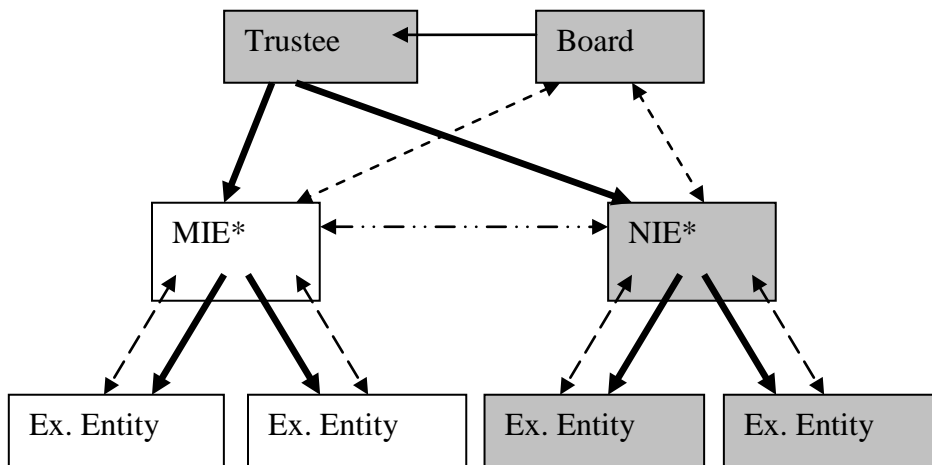
23. A cap in resource allocation per eligible host country, project and programme will be agreed by the Board based on a periodic assessment of the overall status of resources in the Adaptation Fund and with a view to ensuring equitable distribution.

Implementing and Executing Entities

24. Parties can submit proposals for concrete adaptation projects and programmes directly to the Board for funding.

25. Eligible Parties who seek financial resources from the Adaptation Fund may submit proposals *either* directly through their nominated National Implementing Entity (NIE)⁸ *or* using the services of Multilateral Implementing Entities (MIE), according to the figure below.

⁸ May include Ministries.



* A Party nominates either a Multilateral or National Implementing Entity.

26. National Implementing Entities (NIE) are those legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards established by the Board. The NIEs will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.

27. Parties may also nominate regional and subregional entities as implementing entities, and thereby provisions of paragraph 26 will apply.

28. Multilateral Implementing Entities (MIE) are those Multilateral Institutions and Regional Banks that meet the fiduciary standards provided by the Board. The MIEs, chosen by Eligible Parties to submit proposals to the Board, will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.

29. In the case of regional (ie: multi-country) projects and programmes, the proposal submitted to the Board should be endorsed by all participating Parties.

30. Executing Entities are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of Implementing Entities.

Accreditation for Implementing Entities

31. The Board will invite Parties to nominate a NIE. National Implementing Entities will need to meet criteria of fiduciary standards established by the Board.

32. In case the nominated NIE does not meet the criteria, an eligible Party may nominate another entity to access funding from the Fund, provided that it meets the criteria established by the Board, or it can review the capacity of the same entity for receiving funding at a later stage.

33. The Board will invite potential MIEs to express interest in serving the Adaptation Fund as a MIE, as defined in paragraph 28. MIEs will need to meet the criteria established by the Board.

(The remainder of this section will need redrafting following the report on the fiduciary standards commissioned from the Secretariat. This report will need to include consideration of capacity building to NIEs that do not meet the management standards of the AFB.)

Project Cycle

34. The project cycle of the Adaptation Fund for any size of projects and programmes starts by project submission to the Secretariat by the NIE/MIE chosen by the government of the recipient country/ies, initial screening, project review and approval.

35. The Board will invite each Party to designate an Adaptation Fund focal point, and the Secretariat will maintain an updated list of them at the website of the Fund. Proposals need to be endorsed by the Party's AF focal point.

Review and Approval of Small-size Projects and Programmes

36. In order to expedite the process of approving projects and reduce unnecessary bureaucracy, it is proposed that small-size projects and programmes undergo a single approval process by the Board. The proposed project cycle steps are as follows:

(a) The project or programme proponent submits a proposal document based on a template to be approved by the Board. Proposals will be submitted to the Board through the Secretariat four times per year.

(b) The Secretariat will screen all proposals for consistency and provide a technical summary. It will then forward them to the Project and Programme Review Committee for review, based on the criteria approved by the Board. Screening will be conducted as soon as possible, and within fifteen (15) working days.

(c) The Project and Programme Review Committee will review the proposals and give its recommendation to the Board for a decision four weeks before the next Meeting. The Board can approve or reject a proposal with a clear explanation.

(d) All proposals approved by the Board will be posted on the Adaptation Fund website.

Review and Approval of Regular Projects and Programmes

37. Regular adaptation projects and programmes are those that request project funding exceeding \$1 million from the Fund. It is proposed that these proposals undergo either a single or double⁹ approval process. To reduce the time needed to get a project or programme funded, if a proponent prefers to submit a full-fledged project or programme proposal at once, a proponent is allowed to do so. The proposed project cycle steps are as follows:

(a) The project or programme proponent submits a concept or a full-fledged project or programme proposal document based on a template approved by the Board. Proposals can be submitted to the Board through the Secretariat four times per year.

(b) The Secretariat will screen all proposals for consistency and forward them to the Projects and Programme Review Committee for review based on the criteria approved by the Board. Screening will be conducted within fifteen (15) working days by the Secretariat. Reviewing will be conducted by the Committee. The Committee can/will use services of independent adaptation experts to provide input into the review process.

(c) The Secretariat will forward all reviewed project and programme proposals to the Board for decision-making four weeks before the next Meeting. The Board can approve or reject a proposal with clear explanation. Funding will only be reserved for a project or programme after the approval of a full-fledged project or programme document.

(d) All proposals approved by the Board will be posted on the Adaptation Fund website.

Disbursement

38. The Secretariat will draft contracts, Memoranda of Understanding and/or other necessary agreements with implementing entities and provide these agreements for signature by the Chair or any other Member designated to sign these documents. The Board may, at its discretion, review any of the proposed agreements. A template approved by the Board will be used to make agreements.

39. The Trustee will disburse funds on the written instruction of the Board, signed by the Chair and the Vice-Chair, or any other Board Member designated by the Chair and the Vice-Chair, and report to the Board on the disbursement of funds.

40. The Board will ensure a separation of functions between the review and verification of disbursement requests, and the issuance of instructions to the Trustee to disburse.

41. The Board may instruct the Trustee to disburse funds for programmes in tranches based in time specific milestones, and may require a progress review from the Implementing Entity prior to each tranche disbursement.

⁹ A short project proposal followed by a full-fledged project document.

Monitoring, Evaluation and Reviews

42. All projects and programmes under implementation will submit annual status reports to the Secretariat at the completion of each fiscal year. The status reports will be based on a documentation template approved by the Board.
43. All projects and programmes that complete implementation will be subject to terminal evaluation by an independent evaluator. Terminal evaluation reports will be submitted to the Board after a reasonable time after the project termination.
44. The Secretariat will prepare an Annual Monitoring Report, based on status reports and terminal evaluation reports, for review and approval by the Board.
45. The Adaptation Fund Board reserves the right to carry out independent reviews or evaluations of the projects and programmes as and when deemed necessary. The costs for such activities will be covered by the Adaptation Fund.

Strategic Oversight and Monitoring

46. The Board is responsible for strategic oversight of projects and programmes implemented with funds from the Adaptation Fund. Regular project and programme reports will be required from NIEs and MIEs. The Project and Programme Review Committee, with support of the Secretariat, will monitor the AF portfolio of projects and programmes, through reviewing project and programme reports.
47. This project cycle will be kept under review by the Board.

Procurement

48. The procurements by the IEs or any of their attached organization shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations as applicable in a given jurisdiction. IEs shall observe the highest ethical standards during the procurement and execution of the concrete adaptation projects.
49. The project proposal submitted to the Board shall contain adequate and effective means to punish and prevent illegal or corrupt practices. The IEs should promptly inform the Board of any instances of corruption of any kind.

Project Cancellations, Terminations and Suspensions

50. At any stage of the project cycle, either at its discretion or following an independent review-evaluation, the Project and Programmes Review Committee may recommend to the Board to cancel, terminate or suspend a project for several reasons, notably:
- (i) financial irregularities in the implementation of the project, and
 - (ii) material breach, and poor implementation performance leading to a conclusion that the project can no longer meet its objectives.
51. The Board may also consider cancelling, terminating or suspending the accreditation of an IE if it had made false statement or provided intentionally incomplete information to the Board both at the time of accreditation to the Board or in submitting a project or programme proposal.

52. Before the Board makes its final decision whether to cancel, terminate or suspend a project, a programme or an IE accreditation, the IE concerned will be given a fair chance to present its views to the Board.

53. IEs may also initiate termination or suspension of projects and programmes subject to the approval of the Board.

54. The Secretariat will report to the Board on an annual basis on all approved projects and programmes that were cancelled, terminated or suspended during the preceding year.

Reservations

55. The Board reserves the right to reclaim all or parts of the financial resources allocated for the implementation of a project or programme, or cancel projects or programmes later found not to be satisfactorily accounted for. The IE shall be given a fair chance to consult and present its point of view before the Board.

Dispute Settlement

56. In case of a dispute as to the interpretation, application or implementation of the project/programme, the IE shall first approach the Secretariat with a written request seeking clarification. In case the issue is not resolved to the satisfaction of the IE, the case may be put before the Board at its next meeting, to which a representative of the IE could also be invited.

57. Subject to development on the legal status of the Board, the Board will draw more comprehensive dispute settlement provisions.

Management Fees

58. Every project proposal submitted to the Secretariat shall state the management fee requested by the Implementing Entity. The reasonability of the fee will be reviewed case by case.

Where to send a Request for Funding

59. All requests shall be sent to:

The Adaptation Fund Board Secretariat
c/o Global Environment Facility Secretariat
1818 H Street, NW
MSN G6-602
Washington, DC, 20433
USA
Tel: +1 202 473 0508
Fax: +1 202 522 3240/5
Email: secretariat@adaptation-fund.org
Contact: Marcia Levaggi (mlevaggi@thegef.org, Tel: +1 202 473-6390)

60. Acknowledgment of the receipt shall be sent to the proposing IEs with copies of the acknowledgement letter to all Members and Alternates of the Board within a week of the receipt of the request for support.

61. All project proposals submitted will be posted on the website of the Adaptation Fund Board.

Annexes

Annex I: Adaptation Fund relevant CMP decisions

Annex II: *The Strategic Priorities, Policies and Guidelines* of the Adaptation Fund adopted by the CMP

Annex III: *The Fiduciary standard and management system* Approved by the Adaptation Fund Board

Annex IV: The Project and Programme Templates approved by the Adaptation Fund Board

ANNEX VII

BUDGET FOR ACTIVITIES OF THE ADAPTATION FUND SECRETARIAT AND BOARD: JANUARY 1 TO JUNE 30, 2009

| Revised Budget of the Board & Secretariat for the Adaptation Fund January 1, 2009 - June 30, 2009 (6 months) | | |
|---|---|---|
| Expense Category | Approved Budget for 1st Jan to 31st March (3 months) | Revised Budget for 1st Jan to 30th June (6 months) |
| <u>Staff Costs (Salaries and Benefits)</u> | 73,684 | 147,368 |
| 2 months/year 10 GEF staff | 73,684 | 147,368 |
| 100% 1 Professional-level (G) - charged to Jul-Dec plan | 0 | 0 |
| <u>Travel for AF Members/Alternates and AFSec</u> | 160,500 | 363,000 |
| 5 AF Sec staff to attend 2 meetings | 37,500 | 75,000 |
| 24 eligible members to attend March 09 meeting under WB rules | 108,000 | 108,000 |
| 24 eligible members to attend June meeting under UN rules | 0 | 180,000 |
| Support provided to launch of monetization of CERs | 15,000 | 0 |
| <u>Consultancy costs</u> | 0 | 32,000 |
| Review of fiduciary standards | 0 | 32,000 |
| <u>General Operations Costs</u> | 24,946 | 42,392 |
| Office Space, Equipment, and Supplies | 17,446 | 34,892 |
| Support to the Chair for January to March 2009 viz: (Mobile phone calls, computer loan, internet service provider, secretariat support, photocopies, paper etc.) | 7,500 | 7,500 |
| <u>Cost of Meeting with Interpretation in 5 UN Languages</u> | 85,000 | 170,000 |
| Total | \$344,130 | \$754,760 |