

The Adaptation Fund

AFB/B.3/Inf.2
September 11, 2008

Adaptation Fund Board
Third Meeting
Bonn, September 15-18, 2008

FEEDBACK FROM ADAPTATION FUND BOARD MEMBERS AND ALTERNATES ON DOCUMENTS THAT WERE DISCUSSED AT THE SECOND MEETING OF THE ADAPTATION FUND BOARD

1. At the Second Meeting of the Adaptation Fund Board, held during June 16-19, 2008, in Bonn, the Board decided that the Chair, with the assistance of the Secretariat, would seek feedback from Members and Alternates on the following documents and issues, with a view to their consideration at the Third Meeting of the Board:
 - (a) The proposal circulated by the Chair setting out the draft terms of reference and operational modalities for the establishment of committees of the Board;
 - (b) A draft outline for operational policies and guidelines;
 - (c) Strategic priorities, policies and guidelines
 - (d) *Draft Role and Responsibilities of Adaptation Fund Trustee*; and
 - (e) *Draft Legal Arrangements between the Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol and the International Bank for Reconstruction and Development (World Bank) Regarding the Services to be Provided by the Trustee for the Adaptation Fund.*
2. On June 26, 2008, the Secretariat communicated with all the Adaptation Board Members and Alternates requesting feedback on the above-mentioned documents by July 7, 2008. Please find attached to this document, inputs and feedback received to date.
3. The Trustee has also commented on the various documents and issues, and these are included in Annex 1.

**FEEDBACK ON PROPOSAL FOR DRAFT TERMS OF REFERENCE AND OPERATIONAL MODALITIES
FOR ESTABLISHMENT OF COMMITTEES OF THE BOARD**

Uruguay

add: "and alternates" in the clause #11 of subtitle C.
ACCOUNTABILITY, under DRAFT GENERAL GUIDELINES FOR COMMITTEES.

Egypt

Option 2

These comments are provided in accordance with Decision AFB/B.2/3 and in response to the Secretariat's request of 17 July 2008.

Decision 1/CMP.3 lists establishment of subsidiary bodies by the Adaptation Fund Board **on need basis** (Para 5-g), as one of the functions of the Board. However, this function is **preferably** not to be included in the Board's work plan for the period up to the fourth session of the COP/MOP.

Given the fact that the Board, after two meetings, has not been able to conclude its deliberations of the agenda of its first meeting, it might be prudent to postpone a discussion on the establishment of the committees proposed by the Chair.

The Fund is suffering acute shortage of resources and has not even established a framework and modalities to monetize the CERs accruing from approved CDM projects.

Additionally, the Board has not identified an **immediate** need to establish any of the proposed committees by the chair.

It is however, foreseen that as the **work load** of the Board progressively increases and **policy issues** would undoubtedly emanate from **consideration of adaptation projects**, the Board will need to establish **two main committees**. One could be called "**Project Review Committee (PRC)**", which will deal with work programmes, project proposals and associated policy issues". The PRC would make recommendations to the Board on these items. The other committee could be called "**Monitoring, Evaluation and Finance (MEF)**", which would deal with financial resources, including monetization of CERs, resource allocations, business planning, monitoring of the activities of the implementing and executing entities through progress reports and other means, administrative matters and other relevant issues.

50% of the Board members and alternates should attend one or the other committee. Each committee should have a **chair and vice chair**; the chair and vice chair positions would be **alternatively** from Annex I Parties and non Annex I parties. The Chairmanship would rotate between Annex I and non Annex I parties. If the

Chairmanship of one committee is for Annex I Parties ,so the Chairmanship of the other committee should be for the non Annex I parties and vice versa

The **two committees** should meet **concurrently**, back to back with each Board meeting (i.e. the **first two days** in a Board meeting should be dedicated to the meetings of the Committees). Each meeting should conclude in a **report to be presented** to the plenary for adoption, by the **chairs** of the committees.

Selected number of observers, other than the Trustee, and the implementing and executing entities, should (**could**) be allowed to attend the meetings of the committees.

It is proposed to consider establishing these two committees after the [fourth/fifth] meeting of the Board.

Switzerland

This is to inform you that -in line with our position expressed at the last AFB-Meeting- we do not regard the proposed establishment of AFB permanent committees as required or necessary at this point in time. We therefore propose to postpone consideration of this item until the AF is fully operational i.e. funding adaptation projects in the most vulnerable developing countries.

While acknowledging the valuable work done in drafting this first Committees Proposal, we also have strong general doubts about the usefulness of the envisaged modalities and the prospects for attaining the desired results. In addition, we are strongly concerned about the yet undefined cost of this proposal, which would constitute a substantial permanent increase in AF transaction costs that the AF can ill afford.

In our view, the alternative to standing committees is a clear and transparent delegation of work, especially technical work, on the basis of strong accountability and reporting, results-based management, independent evaluation, and yes, trust. This would allow the AFB to act as an executive body focused on strategic direction and achievement of agreed outcomes and results.

At the next meeting of the AFB, it will be important for the Board to act as such and take the decisions needed for the copmop to be able to authorize the launching of CER monetization and AF project financing.

In the time leading up to that meeting, we would expect our Chair to work closely with Secretariat and Trustee to create the basis for the necessary AFB decisions. This would involve redrafting of the key AFB papers not yet adopted, on the basis of comments heard and received. Any remaining large disagreements should be highlighted as such and formulated into options for decision-making where possible. We should not strive for perfection in AF rules, roles and operational principles. The AFB has the power to amend its own rules and strategic priorities

where necessary while the AF is already functioning, and to submit such changes for copmop approval where needed.

We look forward to working with all of you to make this next meeting a success. To me, the measure of success is rather clear: will we be able to begin financing AF projects in 2009 or not.

Japan

Comments regarding the establishment of committees under the AFB

1. General comments

On behalf of the government of Japan, I am in full agreement with the thorough comment made by Anton Hilber (Switzerland) on the captioned topic. In general, Japan opposes to the establishment of permanent committees due to the following reasons:

- (1) Increase of cost and AFB workload need to be avoided as much as possible.
- (2) Given the fact that GEF is a highly qualified secretariat having the experience of managing adaptation projects, the possibility to fully utilize the secretariat should be explored before considering establishing committees.
- (3) Sub-groups having a limited number of AFB members cannot ensure the regional balance equivalent to the AFB. Adding expert members to committees will further complicate the regional balance issue.

As stated above, Japan opposes in general to the establishment of permanent committees. However, in addition to such general comments, some specific problems in the guidelines and TOR that have attracted attention are itemized as follows for reference.

2. Draft General Guidelines

Para. 3 ... Rotation of members and alternates will be made in such a graduation way ...

The underlined section should be corrected as "gradual".

Para. 13 There will be no observers permitted to attend committee meetings.

Participants in committees being limited explicitly to committee members only would invite lack of transparency, and is not acceptable from Japan's viewpoint.

Para 18. Committees will consult broadly on major policy issues and another issues of cooperation.

It should be clarified what is meant by “major policy issues and another/other issues of cooperation”. If the mandate of the committees will be defined in the way described in para 14 of this section, what would be “major policy issues and another/other issues of cooperation” which should be something in addition to the TOR to be decided based on para 14?

3. Administrative, Operations and Ethics Committee (AOEC)

3rd -5th bullet

- Advise the Adaptation Fund Board, the Secretariat and the Trustee on Conflict of interest and Ethics issues;
- Oversee the Policy on Ethics and Conflict of Interest and its implementation;
- Resolve differences in the interpretation of the Policy on Ethics and Conflict of Interest;

Japan does not foresee many issues regarding conflict of interest or ethics which requires to be handled by an independent committee. Japan is in the opinion that should there be many such issues arising in the future, only then the establishment of committees should be considered.

7th bullet

- Develop, for approval by the Adaptation Fund Board, the administrative rules, procedures and guidelines for the Secretariat

Given the fact that GEF is a highly qualified secretariat having the experience of managing adaptation projects, it will be more efficient if GEF itself prepare the draft administrative rules for the Secretariat and submits the draft to the AF Board for approval.

8th bullet

- Oversee the activities of the Secretariat, including the Recruitment and Procurement of services, to ensure consistency with decisions of the Adaptation Fund Board;

Overseeing the Secretariat (e.g. recruitment, procurement) requires expertise and enormous amount of manpower. It may also require committee members to bear the risk of being involved in lawsuits. The sunset-clause of 3 years was adopted at CMP3 to enable replacing the Secretariat if the performance is unsatisfactory, and it is a mechanism intended to function as an overseeing supervisor. Therefore, Japan does not agree with the necessity of an independent committee to oversee the Secretariat.

9th bullet

- Take such other actions to ensure consistency with the decisions by the Conference of the Parties service as the meeting of the Parties to the Kyoto Protocol that are relevant to the work of the Adaptation Fund Board, in particularly decision 1CMP.1, the Policy on Ethics and Conflict of Interest, and decisions of the Adaptation Fund Board, as necessary and appropriate for achieving the objectives of the Adaptation Fund.

The decision cited as 1 CMP.1 should be corrected as 1/CMP.3.

4. Finance and Audit Committee (FAC)

3rd bullet

- Make recommendations to the Adaptation Fund Board on the annual budget proposed by the Secretariat and trustee; monitor expenditure of the budget in the course of the year and report to the Board thereon after the conclusion of each half-year;

Japan believes the monitoring of expenditure should be the responsibility of all board members. Making preparations to enable board members to monitor the expenses should be the responsibility of the Secretariat and should not need any independent committee.

4th bullet

- Provide advice and reports to the Adaptation Fund Board on the monetization of the CERs;

In order to exercise such a function above, this committee would need the same kind of experts who are currently working at the WB as trustees. To have such experts inside the AFB as “in-house consultants” would be a redundant investment.

5th bullet

- Provide guidance to the Trustee on strategic investments for up-scaling the amount of money within the Adaptation Fund;

“Investments” is a function which is already decided to be given to the trustee (WB). If such a function will be exercised by this committee too, it would simply be an unnecessary duplication of work.

6th bullet

- Make recommendations to the Adaptation Fund Board on the selection of external auditors for the Adaptation Fund, receive and consider the reports of the auditors and report to the Board thereon;

Necessity of selection is unlikely if the AFB agrees on simple rules as to choose certified accountants to conduct audits based on Generally Accepted Accounting Principles (GAAP). In addition, audit reports should be shared among all board members and not only among the committee members.

7th bullet

- Review the Fund’s Audited Financial Statements for each year, and make recommendations to the Adaptation Fund Board regarding the approval of the Financial Statements;

As independent third parties, external auditors are contracted to review financial statements and to provide their opinions. Given such functions of external auditors, it is difficult to justify this committee assuming a similar function. In addition, in order to exercise such a function above, this committee would

need certified accountants as members, and such redundant expenses are difficult to justify. If the intention is to cross-check the quality of audit reports, uploading the audit report would be sufficient.

8th bullet

- Provide advice to the Adaptation Fund Board on the Adaptation Fund's fiscal management policies and processes, including asset-liability coverage, financial forecasts, modalities of contributions and investment policies for the Adaptation Fund's financial assets;

Such functions are already decided to be given to the trustee (WB). If such a function will be exercised by this committee too, it would simply be an unnecessary duplication of work.

5. Policy, Strategy and Outreach Committee (PSOC)

2nd bullet

- Provide advice to the Adaptation Fund Board on the evolution of core policies of the Adaptation Fund in areas not explicitly covered by decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund;

Japan is in the opinion that if there should be any such necessity, they should be handled then. Japan opposes to the proposal to establish a committee to serve for a non-explicit area.

3rd bullet

- Provide advice to the Adaptation Fund Board on overall strategic planning for the Adaptation Fund;

Overall strategic planning should be the function and responsibility of all board members and should not be limited to the committee members.

4th bullet

- Review the overall performance of the Adaptation Fund making use of both internal and external evaluations, and other reports;

It is difficult to understand what is intended by "overall performance": the AF board has not come to an agreement whether and how to evaluate the performance of the AF (except for information to be included in financial statements and audit reports). Japan is in the opinion that it is too soon to discuss establishing such committees when the contents of performance evaluation is yet to be agreed upon.

5th bullet

- Serve as the lead Committee for the independent evaluation and review function for the Adaptation Fund, and pass on the Evaluation recommendations to the Adaptation Fund Board along with the comments of the committee, as appropriate;

It is difficult to understand what is intended by "evaluation" and "function": the AF board has not come to an agreement whether and how to evaluate the performance of the AF (except for information to be

included in financial statements and audit reports). Japan is in the opinion that it is too soon to discuss establishing such committees when the contents of performance evaluation is yet to be agreed.

7th bullet

- Advise the Board on overall resource mobilization policy and approach;

Japan believes mobilization of secretariat cost until CER monetization is an important issue. However, it has been decided that such function will be handled by a working group. Japan believes that apart from the specific mobilization as indicated above, “overall resource mobilization” should be an issue to be handled and considered by all board members.

6. Projects and Programmes Committee (PPC)

2nd bullet

- Shall submit projects proposals from eligible Parties to the Kyoto Protocol to the Adaptation Fund Board for its approval, taking into account the mandate of the AFB as the Operating entity of the Fund in this regard

If submission is the function, it is difficult to understand what is the value added by this committee. If proposals are to be submitted to AF Board through PPC instead of being submitted directly to the AF Board, it should be clarified what is the role expected to be played by PPC in this process.

3rd bullet

- Review regular updates from the Secretariat on the status of the implementation of projects from eligible Parties;

It is too soon to discuss the abovementioned function when it is yet to be agreed how the AFB will monitor the implementation of projects.

4th bullet

- Review and provide advice to the Adaptation Fund Board on proposal guidelines, project review criteria and appeal processes as well as criteria for, and recruitment of, consultants;

Guidelines, project review criteria, consultant recruitment criteria should be and are discussed at the AFB. If the AFB process is unsatisfactory in terms of speed, quality, etc., only then the establishment of the committee should be considered.

5th bullet

- Provide advice on initiatives to facilitate the provision of technical support through the expansion of operational partnerships;

The description is too vague it is difficult to understand what kind of situation is intended. First, the volume and kind of technical support needed under the AF should be understood. Then, it should be considered whether “expansion of operational partnerships” would be the appropriate/necessary. It is all too soon to specify such type of function at this point of time.

6th bullet

- Provide guidance to the Adaptation Fund Board on policies of harmonization, alignment and long term sustainability of the Adaptation Fund;

“Guidance” is seemingly an inappropriate term given the fact that committees should assist AFB. AFB should be the entity to give guidance to the committee.

Poland

I would like to thank Anton for a a very reasonable statement concerning AFB Committees. I fully support planning oriented process of AFB development, with clear range of responsibility given to the Secretariate. I am also in position that activity of the AFB should base on real funds, and the level of planned expenses must be a result of realistic income estimation. I'd also like in in the name of Poland and Russia as Alternate to support way of thinking expressed by vice-chair Naoya Tsukamoto in two documents 1. Strategic priorities, policies and guidelines 2. Operational policies and guidelines sent on June 26 with further comments of Yvan. That's the proper way of planning AFB activity.

United Kingdom

I found the papers by the Chair on the establishment of Committees very useful. I agree in principle that, once fully operational, the AFB will need to think about mechanisms do conduct in-depth analyses and discussions on a number of issues. These include, in my view: monitoring and evaluation, lesson learning (including with other funds), technical appraisal of project proposals, financial management and operational and ethics matters. I tend to agree with colleagues, however, that discussions on the exact modalities to enable such in depth work premature at this stage, given the urgency of getting the Fund up and running. With the possible exception, perhaps, of arrangements for lesson learning, which, I believe, might benefit from some early consideration.

Hope this is useful,

FEEDBACK ON DRAFT OUTLINE FOR OPERATIONAL POLICIES AND GUIDELINES

Albania

1. Background

This section would make references to the relevant CoP/MoP decisions

2. Principles

Under this section, it is important to keep consistency to the relevant CoP/MOP decisions regarding the guiding principles.

3. Access Modalities

Here would recommend two means of modalities to access the AF resources:

- *Direct access.* Eligible host country must assign a national entity to develop project proposal subject of getting resources from the Adaptation Fund. Such an entity must be subject of eligibility criteria to be developed and adopted by the Board.
- *Indirect access.* Eligible host countries must chose to develop and implement proposal through an implementing agency, acknowledged as such by the Adaptation Fund Board.

4. Scope of the Fund

The fund must provide resources to the eligible host countries for the following sectors:

- (1) Water resources (including water infrastructure)
- (2) Agriculture
- (3) Mountain ecosystems (including mountain forest ecosystems)
- (4) Renewable energy (mainly hydroenergety)
- (5) Dry land management
- (6) Wetland management
- (7) Biodiversity
- (8) Infrastructures (roads, habitats, etc.)
- (9) Coastal zones

5. Eligibility Criteria

i. Entities

Provided the host country can go either through an IA or EA, one set of eligibility criteria for both types of entities is recommended:

Implementing and executing entity

- Has a record of work in the area of climate change adaptation in the context of non-Annex 1 countries;
- Has dedicated staff, and internationally recognized (state-of-art) knowledge and expertise in climate change adaptation;
- Has institutional mandate for climate change adaptation, and can demonstrate its added value and comparative advantage;
- Has the operational capacity to deliver at least X million annually;
- Has operational procedures for programme / project design and implementation including the procedures for result-based management that adheres to the principles of transparency, competitiveness and accountability, including the procedures for result-based reporting, M&E and financial auditing;
- Can operate and deliver programmes / projects in close partnership and cooperation with national stakeholders (governmental and non-governmental organizations) and already has proof record of such partnerships;

Comment [N1]: We might need to discuss among the board members on a certain minimum of annual delivery.

ii. Countries

- Be an eligible CDM host country (this is because the Adaptation Fund is being replenished from the 2% levy from the CDM proceeds),
- Be an LDCs, SIDS or other low income and low middle income country
- Be particularly vulnerable to climate change impacts. (This criteria needs a clear definition of the wording: “particularly vulnerable” and indicators to determine this criteria. References to IPCC reports and national communications, where country’s vulnerability is indicated, might be an indicator.
- A minimum maximum allocation in USD per eligible host country is needed

Comment [N2]: This means All Non-Annex 1 countries

Comment [N3]: Should insert footnote that refers to the definitions of low income and low middle income countries as per the WB definitions.

iii. Projects/Programmes

- Contributes to development objectives of the host country; and is fully in line with the country’s development priorities, as outlined in the country development strategies (PRSPs, NDS,) sectorial development and sub-national development strategies and action plans;
- Is in line with the vulnerability and adaptation priorities outlined in the National Communications to the UNFCCC, Technology Needs Assessment Reports and NAPAs;
- Is endorsed by the UNFCCC national focal point
- Clearly demonstrates that the issue of concern is climate-driven and is not part of business-as-usual development solutions to be financed from other sources of funding, rather than Adaptation Fund;
- Addresses current and future climate vulnerability in an integrated manner;
- Addresses vulnerable sectors that have GHG mitigation potential (for example: hydro energy)

- Is designed in a way to enable the setting up of a mechanism to ensure long term adaptation capacity in the host country.
- Promotes environmentally friendly and pro-poor solutions to adaptation;
- Targets most vulnerable and disadvantaged groups of society and addresses their vulnerability to current and future climate risks;
- Clearly outlines the project / programme strategy that is based on scientific justification of climate risk and vulnerability to climate change;
- Provides clear indicators of measuring the project impact and sustainability and demonstrates replicability and up-scaling potential.

6. Activities to be Financed

- Policy interventions at sectorial and territorial level.
- Piloting of implementation of adaptation measures with replication potential

7. Programming Framework

This section needs to be built on realistic scenarios for the availability of the resources that would feed the fund. A certain period for such a programming framework needs to be defined by the board.

8. Project Cycle and Approval

Project conception/initiation phase

- The host eligible country initiates a programme / project concept (either through executing or implementing entity) in a provided template;
- The host eligible country provides the endorsement letter from the UNFCCC focal point along with the concept note.
- AF Secretariat screens the concept against eligibility criteria (see the section on eligibility) and if criteria are met passes onto Adaptation Fund Board for a review and approval; (AFB may decide to establish a technical review committee to assist in the review process)

Project preparation phase

- Upon approval by the Board, a certain budget for the programme / project preparation phase will be released to the project proponent for feasibility study and programme / project design; Programme / Project design phase should not exceed XX months in order to maintain the relevance and commitments (?);

Comment [N4]: This needs to be define and depends on the project size.

Comment [N5]: The period needs to be defined and depends on the project size

Project approval

- Programme / project is submitted to AF Secretariat for an initial screening for eligibility and will be passed to AFB for a review and final approval;
- AFB may request project proponents through the AF Secretariat additional clarifications and provide for comments to be addressed within the pre-set timeframe;

- Upon a final decision by the AF Board on project /program approval, the funds will be released for project / programme implementation;

Project implementation

- The projects /programs will be implemented within the pre-set time-frame and have to follow the rules and procedures for project/program implementation of the IA/EA to which an authority to implement the project would be delegated by the AF Board.

Project monitoring and evaluation

- IA/EA will be requested to submit annual progress reports, including financial reports on disbursement and implementation;
- All projects/ programmes will be subject to external audit in cases when annual disbursement exceeds predefined threshold (XX);
- Upon project completion IA / EA will submit final report to the AFB through the AF Secretariat;
- Within one year, after project / programme has been completed IA / EA will provide for independent evaluation and independent audit reports.

Comment [N6]: The threshold needs to be defined by the board

9. Project Preparation Guidance

- This section must have templates for the following stages:
 1. Project concept
 2. Project preparation phase ((this might differ on the basis of the project size)
 3. Project document (this might differ on the basis of the project size)

In addition, each section of the template might need to have narrative explanation for each section/ step.

France and United Kingdom

Background

- ref to relevant COP/MOP decisions
- spell out aim of this document and relations to other documents (roles and responsibilities of Board, Secretariat and Trustee)

Principles

- Start with ref to 1/CMP3 paras 1 (targeted at DC Parties to KP that are particularly vulnerable) and 2 (what the fund will finance: concrete ada prjcts and pgms, country driven, views and priorities)

- Proceed with principles as per 5/CMP2¹
- Support Japan proposal to add a paragraph saying that the Fund will seek to apply international environmental and social safeguards, procurement and fiduciary standards, where possible
- Support the Japan proposal to add a paragraph on ‘learning by doing’ (even though this is also mentioned in access modalities). Believe there is a need to stress at the beginning that AF might need to evolve new arrangements in the future based on experience from initial projects, and to enable it to remain efficient as the size of the fund grows. One important aspect of this concerns the development of procedures for programme support.

Access modalities

- Mention two means of modalities to access the AF: direct and indirect access. Emphasize that the Fund’s mid-term goal is to operate mainly through direct access, but that a transition period may be needed to develop the way this will be operationalised (duration to be defined). The aim is the “learning by doing process” mentioned in the above paragraph: the adaptation fund would then work both as a facility and a capacity building instrument, encouraging appropriation and development of awareness.
- Different options exist to implement direct or indirect access, in particular concerning their implications with regards to guaranteeing high levels of fiduciary standards. They should be detailed here in order to allow the Board to study their relevance and their implications. Examples include: the schemes operated by the Global Fund for HIV and Malaria, partnerships with development agencies, partnership with national governments, arrangement for independent or national auditing and for M&E, use of existing mechanisms, etc. ||
- Proceed then with modalities as already agreed in 5/CMP2.
- Suggest you then add current para 9 in here: need to spell out from the start that proposals must be endorsed by national authorities. We like the suggestion in current para 9 which recommends the establishment of a country coordinating mechanism – we would suggest adding the word ‘multi-stakeholder’ in here. We would also suggest the guidelines recommend here that Parties seek to develop national adaptation strategies. Add line after ‘endorsement by UNFCCC national focal points’ stating: ‘who will ensure that proposals are compatible with national development and adaptation strategies’.
- Current list of access modalities don’t specify accountability. Suggest you consider a way to do so.

Comment [y7]: Deleted: Moreover, in the case of direct access: projects would have to be certified “adaptation fund” by an **existing** national entity that could be the Designated National Agency

Scope of the fund

- Ensure the coherence between the strategic priorities and this part.
- The fund will provide resources for the following activities:
 - design and implementation of public policies (defined as policies designed and implemented through an ongoing dialogue between all stake-holders:

¹ Note that 5a restricts funding sources to AF to share of proceeds – might need to specify somehow that other sources of funding could be used for this

- representatives of the public sector, private sector, NGOs; unions, etc.;;) to integrate adaptation into development
- o financial instruments of these policies;
- o technology transfers
- o pilot/demonstration projects

- including in the following sectors:
 - o risk management (alert systems, prevention, insurance);
 - o infrastructures (roads, habitat, urban planning);
 - o agriculture;
 - o biodiversity;
 - o forests;
 - o dry land management;
 - o water resources (including water infrastructures);
 - o health;

Eligibility

a. Entities

- Support Albania and Japan suggestions which stress the need to spell out the standards EI's and AI's would be required to adhere to, concerning: (i) institutional mandate (either through government or constituent based organisation ?) (i) institutional capability - might want to stipulate capability in strategic direction/oversight (through independent Board or similar), operations (CEO, advisory/professional, operations/logistics, admin (including financial management monitoring, evaluation, transparency, etc)); (ii) relevant knowledge and experience, demonstration of comparative advantages; (iii) ability to work in partnership with multiple stakeholders. Suggest Secretariat develop guidance, standard form and scoring system for this.
- Need to consider unresolved point here: whether Board will approve EI at time of concept note, full programme proposal or through a separate accreditation scheme

Comment [y8]: Important, though ...

b. Countries

- Refer to para 1 of 1/CMP3: DC Parties to the KP that are particularly vulnerable to ...
- Ideally, the amount of funding potential is in proportion with the particular needs of DC's, as regards their adaptation requirements – ie: to guarantee access to the fund in a balanced and equitable manner. We look forward to proposals by the secretariat to reflect this. This implies the definition of transparent, objective and consensual criteria.
- Suggest we also allow countries to join in a regional proposal – eg: small island states, and/or case of cross border water management.

c. Projects and programmes

- We support the proposals made by Albania, especially:

- addressing vulnerability (indicators to be defined). This point is closely linked with the evaluation of the needs of LDCs and SIDs in particular (see above)
- viability of the project, sustainability, impact on structural change;
- cost-effectiveness and positive benefit-cost ratio
- environmental and social safeguards
- scientific grounding. The Board might want to consider creating a panel of experts to provide the Board with objective and scientific analysis of the projects.
- developed and implemented with participation of multiple stakeholders (national, bilateral and multilateral). In particular, a good coordination of the fund with other financial actors is needed.
- Might want to launch a discussion on the question of projects and programmes – suggest reference is made to international definition – the main idea is that programmes are aimed at achieving higher level strategic objectives, usually by (national) governments, and involve a range of institutional strengthening as well as concrete activities, whereas projects concern discrete activities with concrete outcomes that are more narrowly defined in scope, space and time.

Activities

This part should be coherent with the scope (see above)

- We should ensure the fund is able to support a wide range of activities, as, for instance, set out in 5/CP7. These include, first and foremost, ‘soft’ (institutional, regulatory, mainstreaming) solutions : the Fund should be able to support the design and implementation of public policies and support policy interventions. They also include ‘hard’ (infrastructure) solutions, as appropriate. The key is that they are aligned to development objectives, integrated in national policies, and are derived on the basis of wide stakeholder involvement. The Fund should also support pilot activities, as required.

Programming framework

- We understand this to mean how proposals are framed – ie: overall presentation for the Secretariat Board to consider.
- Suggest we use standard international practice, which, in most cases, consists of:
 - Statement of the context and the problem to be addressed
 - Presentation of goal, purpose and outputs. Provide a logical framework in the annex.
 - Relationship to national development, national adaptation.
 - Compatibility with strategic priorities and scope, eligibility and activities criteria of the AF.
 - Programme justification: contribution to climate change adaptation, economic, social, environmental justifications, scientific grounding
 - Activities to be financed and budget (detailed budget in appendix)
 - Demonstration of the comparative advantage of the agency.
 - Management

- Monitoring and evaluation
- We might also consider presentation of different frameworks for different types of projects – as per range described in strategic priorities

Project cycle and approval

The process should be transparent, allow inputs from interested stakeholders, including from a scientific panel were this to be created – inputs to be considered by the Board when finalising its decision.

We should consider the possibility of delegating some level of authority to the Secretariat to approve certain types of project, up to a certain threshold value.

The process should not be fixed too early in order to allow the fund to be operationalized. In a longer term, the Board could study different approach : annual / 6-monthly / quarterly ‘call for proposals’ approach (this would enable the Board to consider balanced and equitable access to funds in accordance with fund availability) or a ‘rolling basis’ approach for submission of concept notes

- We might wish to consider different PCM procedures for small-grants (see strategic priorities)

Other considerations

- The operational guidelines as proposed don’t consider fiduciary control mechanisms – ie: (i) arrangements for independent auditing, and what actions will be taken in case something gets picked up by independent auditors and (ii) arrangements for independent M&E (as against internal M&E), to check whether programmes / projects achieve stated objectives, and what actions will be required in case achievements are below what is was stated in the programme objectives.
- We look forward to suggestions from the Secretariat on how best to address this. Suggest look at the Gobar Fund (to fight Aids, TB and Malaria) and Global Alliance for Vaccines and Immunisation, which have developed experience in this, and consider additional ways: partnerships with governments and development agencies, arrangements for independent or national auditing and use of existing mechanisms.
- A key question to be answered is which (type of) organisation will provide an independent view on fiduciary standards and programme achievements in the case of direct access, how this will be financed and who will be responsible for considering reports and for taking action.

Japan

1. Background

(no objection to the secretariat draft)

2. Principles

- (1) Procurement
International procurement guidelines should be followed to ensure transparency.
- (2) Environment social safeguards
Appropriate environment and social safeguards should be applied depending on the volume of projects.
- (3) Learning by doing
There should be a mechanism to systematically feed back the lessons gained “by doing” to improve the operation.
- (4) (it should be noted that para 6(f) “no duplication of funding” cannot be deleted because it is already agreed upon in 5/CMP.2, para 1.(g)).

3. (Access) Modalities

- (1) National plans
Project proposals should be consistent with national adaptation plans and national development plans.
- (2) (it should be noted that para 7(e) “co-finance demonstration” cannot be deleted because it is already agreed upon in 5/CMP.2, para 2(e)).

4. Scope of the Fund (Strategic priorities)

(Please refer to the Strategic Priorities, Policies and Guidelines)

5. Activities to be financed

Activities such as the following should be eligible for finance.

- Infrastructure/civil works
- training
- planning

6. Eligibility criteria (entities, countries, projects/programmes)

- (1) Entity eligibility (non-direct access= Implementing Entities)
 - The information on minimum requirement of Implementing Entities and how candidates will be managed should be included in the Operational Policies and Guidelines.
- (2) Entity eligibility (in case of direct access)
 - As stipulated in para 5 of AFB/B.2/12, criteria of Implementing/Executing entities will be set out in the Operational Policies and Guidelines. Prior experience and demonstrated capacity of managing similar projects should be the minimum requirement to be qualified as an executing entity under the AF. Also, 5/CMP.2 para 2 (g) should be cited: “sound financial management, including the use of international fiduciary standards”.
 - Entity eligibility of IE does not need to be the same with EE, but consistency needs to be ensured.

(3) Country eligibility
According to KP 12.8, developing country Parties (=Non Annex I countries) should be eligible for AF assistance.

(3) Project/program eligibility:
(for other items, please refer to the Strategic Priorities, Policies and Guidelines)

(4) Eligible cost items: the following cost items should be eligible.

- Infrastructure/civil works
- skill training/workshops/conference

The following cost items should be non-eligible.

- Perishable goods
- Tax & levies
- Overhead costs

7. Programming Framework (including types of projects & project selection criteria)

(Please refer to the Strategic Priorities, Policies and Guidelines)

8. Project Cycle & Approval

(1) Project cycle

(Please refer to the Strategic Priorities, Policies and Guidelines)

(2) Project concept paper

Project concept paper to be managed on a rolling basis should be useful. The UNFCCC national focal points could endorse project concepts based on consideration by government, NGO, etc.

(3) Monitoring and project completion reports

The content of project monitoring should be decided based on the volume of projects. As for project completion reports, all projects should be mandated.

9. Project Preparation Guidance & Operational Manual / Templates

GEF templates should be used as much as possible to ensure efficiency.

South Africa and Egypt

1. Background

This section would make references to the relevant CoP/MoP decisions

2. Principles

Under this section, it is important to keep consistency to the relevant CoP/MOP decisions regarding the guiding principles.

3. Access Modalities

Here would recommend two means of modalities to access the AF resources:

- *Direct access.* Eligible host country must assign a national entity to develop project proposal subject of getting resources from the Adaptation Fund. Such an entity must be subject of eligibility criteria to be developed and adopted by the Board.
- *Indirect access.* Eligible host countries must chose to develop and implement proposal through an implementing agency, acknowledged as such by the Adaptation Fund Board.

4. Scope of the Fund

Need to include here a sub-heading: 'OBJECTIVES and STRATEGIC PRIORITIES of the Adaptation Fund'

The fund must provide resources to the eligible host countries for the following sectors:

- (1) Water resources (including water infrastructure)
- (2) Agriculture
- (3) Mountain ecosystems (including mountain forest ecosystems)
- (4) Renewable energy (mainly hydroenergety)
- (5) Dry land management
- (6) Wetland management
- (7) Biodiversity
- (8) Infrastructures (roads, habitats, etc.)
- (9) Coastal zones
- (10) Industry

Comment [DM9]: delete

Comment [DM10]: To be added

5. Eligibility Criteria

i. *Entities*

Provided the host country can go either through an IA or EA, one set of eligibility criteria for both types of entities is recommended:

Implementing and executing entity

- Has a record of work in the area of climate change adaptation in the context of non-Annex 1 countries;
- Has dedicated staff, and internationally recognized (state-of-art) knowledge and expertise in climate change adaptation;
- Has institutional mandate for climate change adaptation, and can demonstrate its added value and comparative advantage;
- Has the operational capacity to deliver at least X million annually;

- Has operational procedures for programme / project design and implementation including the procedures for result-based management that adheres to the principles of transparency, competitiveness and accountability, including the procedures for result-based reporting, M&E and financial auditing;
- Can operate and deliver programmes / projects in close partnership and cooperation with national stakeholders (governmental and non-governmental organizations) and already has proof record of such partnerships;

ii. Countries

- Be an eligible CDM host country (this is because the Adaptation Fund is being replenished from the 2% levy from the CDM proceeds),
- Be an LDCs, SIDS or other low income and low middle income country
- Be particularly vulnerable to climate change impacts . (This criteria needs a clear definition of the wording: “particularly vulnerable” and indicators to determine this criteria. References to IPCC reports and national communications, where country’s vulnerability is indicated, might (would) be an (important) indicator.
- A minimum maximum allocation in USD per eligible host country is needed

Comment [DM11]: It is extremely important to take the findings of IPCC assessment reports & National Communications into account

iii. Projects/Programmes

- Contributes to development objectives of the host country; and is fully in line with the country’s development priorities, as outlined in the country development strategies (PRSPs, NDS,) sectorial development and sub-national development strategies and action plans;
- Is in line with the vulnerability and adaptation priorities outlined in the National Communications to the UNFCCC, Technology Needs Assessment Reports and NAPAs;
- Is endorsed by the UNFCCC national focal point
- Clearly demonstrates that the issue of concern is climate-driven and is not part of business-as-usual development solutions to be financed from other sources of funding, rather than Adaptation Fund;
- Addresses current and future climate vulnerability in an integrated manner;
- Addresses vulnerable sectors that have GHG mitigation potential (for example: hydro energy)
- Is designed in a way to enable the setting up of a mechanism to ensure long term adaptation capacity in the host country.
- Promotes environmentally friendly and pro-poor solutions to adaptation;
- Targets most vulnerable and disadvantaged groups of society and addresses their vulnerability to current and future climate risks;
- Clearly outlines the project / programme strategy that is based on scientific justification of climate risk and vulnerability to climate change;

- Provides clear indicators of measuring the project impact and sustainability and demonstrates replicability and up-scaling potential.

6. Activities to be Financed

- Policy interventions at sectorial and territorial level.
- Piloting of implementation of adaptation measures with replication potential
- Need to recall that the AF was set up to finance concrete adaptation projects. Therefore we need to move beyond pilot programmes and demonstration projects; and include financing of concrete projects at scale.
- Also need to prioritise adaptation technologies
- Conducting National Adaptation Strategies to Climate Change

Formatted: Bullets and Numbering

Formatted: Bullets and Numbering

7. Programming Framework

This section needs to be built on realistic scenarios for the availability of the resources that would feed the fund. A certain period for such a programming framework needs to be defined by the board.

8. Project Cycle and Approval

Project conception/initiation phase

- The host eligible country initiates a programme / project concept (either through executing or implementing entity) in a provided template;
- The host eligible country provides the endorsement letter from the UNFCCC focal point along with the concept note.
- AF Secretariat screens the concept against eligibility criteria (see the section on eligibility) and if criteria are met passes onto Adaptation Fund Board for a review and approval; (AFB may decide to establish a technical review committee to assist in the review process)

Project preparation phase

- Upon approval by the Board, a certain budget for the programme / project preparation phase will be released to the project proponent for feasibility study and programme / project design; Programme / Project design phase should not exceed XX months in order to maintain the relevance and commitments (?);

Project approval

- Programme / project is submitted to AF Secretariat for an initial screening for eligibility and will be passed to AFB for a review and final approval;
- AFB may request project proponents through the AF Secretariat additional clarifications and provide for comments to be addressed within the pre-set timeframe;

- Upon a final decision by the AF Board on project /program approval, the funds will be released for project / programme implementation;

Project implementation

- The projects /programs will be implemented within the pre-set time-frame and have to follow the rules and procedures for project/program implementation of the IA/EA to which an authority to implement the project would be delegated by the AF Board.

Project monitoring and evaluation

- IA/EA will be requested to submit annual progress reports, including financial reports on disbursement and implementation;
- All projects/ programmes will be subject to external audit in cases when annual disbursement exceeds predefined threshold (XX)
- Upon project completion IA / EA will submit final report to the AFB through the AF Secretariat;
- Within one year, after project / programme has been completed IA / EA will provide for independent evaluation and independent audit reports.

9. Project Preparation Guidance

- This section must have templates for the following stages:

4. Project concept

5. Project preparation phase ((this might differ on the basis of the project size)

6. Project document (this might differ on the basis of the project size)

Formatted: Bullets and Numbering

In addition, each section of the template might need to have narrative explanation for each section/ step.

Comment [DM12]:

Uruguay

Activities to be financed:

As established under point 7c) of the preliminary version of the AFB/B.2/8: “Provisional operational policies and guidelines concerning the access of the parties to the Adaptation Fund’s resources”, the projects to be financed by this Fund should bear in mind the political priorities proposed in the National Communications, and in particular in the national programmes about adaptation included within mentioned National Communications.

Uruguay understands that this is a key point in order to make any progress as regards to climate change. In this respect, available funds should be available for those countries which consider it necessary to up-date and give priority to the measures and proposals resulting from the National

Communications and National Adaptation Programmes. This is of utmost importance due to the fact that, in many cases, the measures identified in the National Communications are not completely up-to-date or were not analyzed in depth as required, and therefore do not reflect exactly the national circumstances and needs at the moment that the application for financial assistance is made for the implementation of the adaptation measures for the time elapsed between both processes, which can be a large period of several years.

Another important aspect to have in mind is to ensure the geographical balance of the activities to be financed considering this is a Fund that contributes to the adaptation to climate change in developing countries.

Eligibility Criteria:

One of the main criteria to have in mind for the selection of projects is the evaluation of the importance that the sector being impacted by the climate change in each one of the countries to be considered for assistance from this fund has, within the framework of the economical, social and environmental activities of the mentioned country. In other words, those projects belonging to sectors that have a critical influence in the development of a determined country will be considered in the first place for financial assistance.

Project cycle and approval:

Concerning modalities for paying out funds, in the case of activities of support such as the one mentioned in “Activities to be financed”, an amount of up to 100.000 dollars would be allocated, which could be on the basis of direct access through the Secretariat, while the projects strictly speaking will have a similar cycle to those of the GEF Full Size.

FEEDBACK ON DRAFT ROLE AND RESPONSIBILITIES OF THE ADAPTATION FUND TRUSTEE

PAKISTAN

Para 8

The Trustee will be ~~responsible~~ accountable² for the monetization of the CERs collected as the share of proceeds and forwarded to the Adaptation Fund in accordance with the guidance provided by the Adaptation Fund Board. Monetization of CERs is the transformation of the CERs into cash. The Trustee will undertake the monetization of CERs in accordance with paragraph 28 of decision 1/CMP 3. The monetization program is to be undertaken to (a) ensure predictable revenue flow for the Adaptation Fund; (b) optimize revenue for the Adaptation Fund while limiting financial risks; (c) be transparent and monetize the share of the proceeds in the most cost-effective manner, utilizing appropriate expertise for this task. These objectives will provide the basis for all work undertaken by the Trustee in connection with the monetization of CERs.

Para 15

Contributions: If so requested by the Adaptation Fund Board, the Trustee may accept, in the manner agreed between the Adaptation Fund Board and the Trustee, monetary contributions from donors to support the operations of the Adaptation Fund. The Trustee will enter into a trust fund administration agreement with each donor setting out the terms and conditions applicable to the administration and management of the contributions. Such terms and conditions shall be put before the Adaptation Fund Board for approval.

Para 16

The Adaptation Fund Board Secretariat will ensure that the Trustee receives all information necessary in order to carry out its responsibilities.

² Kindly see paragraph 1/CMP/3 paragraphs 5(k) and 22

FEEDBACK ON STRATEGIC PRIORITIES, POLICIES AND GUIDELINES

Japan

10. Strategic priorities (Countries)

According to 1/CMP.3 para 1, “developing country Parties to the KP that are particularly vulnerable to the adverse effects of climate change” are eligible for AF assistance (“Eligible Parties”). The key question in front of us is how to implement the spirit of this paragraph, namely “that are particularly vulnerable”.

- What is the practical interpretation of “that are particularly vulnerable”?
Options:
 - LDCs and SIDS (=77 countries).
 - Vulnerable regions identified in the IPCC AR4.
 - Countries listed in Convention 4.8 (a)-(g)

- At what stage of procedure the limited resources of the fund should be concentrated so that the intention of 1/CMP.3 para 1 would be realized?
Alternatives:
 - The number of the Eligible Parties will be limited by narrow definition using above options.
 - All “developing country Parties to the KP” will be defined as the Eligible Parties, and at the stage of proposal screening we will give priority to country Parties “that are particularly vulnerable” by using options above.

- If the estimated CER amount (USD 960 mil. during 2008-2012) is allocated equally among all Non Annex I Parties (=149 countries), it will be USD 6.4 mil. per country in total during the 5 years. Do we need any limitation of the total amount for a single country?
Options
 - Any country should not obtain more than USD xx mil. in total.
 - To set up differentiated assistance volume quota among Eligible Parties

- How to set up differentiated assistance volume quota among Eligible Parties?
Options:
 - Use of indicators which show the quantified damage of climate change.
 - Use of indicators which show the quantified needs of adaptation (if any).
 - Use of indicators which show the effectiveness of adaptation intervention (currently being developed at IGES [Japan] and the World Bank).
 - Use of per capita GNI to indicate financial constraints.

11. Strategic priorities (Systems/sectors)

At the stage of proposal screening, Japan thinks that systems/sectors that are particularly vulnerable should be prioritized. Several systems/sectors are identified in the IPCC AR4 as “especially affected by climate change” (e.g. tundra, mangrove forests, coral reefs, agriculture in low-latitude regions).

12. Project cycle & approval (Project approval process)

Approval for project proposals can be given only within the amount of monetized CER kept in the AF account at the time of project approval. Such constraints affecting the project approval process should be fully understood by project applicants to avoid confusion. That having said, the following items should be discussed at the AFB.

- If the total cost of qualified project proposals exceeds the available monetized CER amount, how should AFB choose projects to be financed?
Options:
 - 4th bullet of para 1 above discusses assistance volume quota to be calculated for each country. LDCs & SIDS should obtain up to such respective pre-determined assistance volume, and if there are monetized CER still remaining, proposals from “non-LDCs & SIDS” should be considered (=LDCs & SIDS to be given first priority, and proposals from other Parties to be considered later).
 - “1 country 1 project” rule, and LDCs & SIDS should be given priority.
 - “1 country 1 project” rule, and projects which include prioritized system/sector should be given priority.
- * Qualified project proposals that are not chosen due to monetized CER shortage should be carried over to the next project review process and should be given priority.
- Small projects should not be blocked access to AF. On the other hand, should there be a project cost ceiling for a single project? If so, how much, or how much percentage of each country’s quota?

13. Project cycle & approval (Qualification)

5/CMP.2 para 1.(d) states that “full adaptation cost basis of projects and programmes to address the adverse effects of climate change” should be funded under the AF. However, many adaptation initiatives are embedded within broader sector initiatives. In this regard, in order to clarify the scope to be financed under the AF, the following items should be discussed at AFB.

- How should adaptation cost distinguished from total development cost?
- Adaptation measures vary in degree, and there are direct and indirect adaptation measures. Should assistance be restricted to direct adaptation measures only?
- If the difference of degree can be quantified, can adaptation measures having higher degree be given priority?

14. Project cycle & approval (5-year plan of CER monetization)

Fund availability of the AF needs to be predictable, and volume of projects to be approved (=CER to be monetized) in each year during 2009-2012 should be discussed at AFB.

- Should the 5-year monetization plan be designed as to fund the same amount in each year or different amount?
- How much CER should be monetized as initial monetization? (=how much cash should be intended?)

15. Project cycle & approval (Project approval by AFB and secretariat)

Due to the fact that most AFB members (and alternates) have full time jobs, AFB members' workload should be decreased as much as possible and let them concentrate on important decisions. Given the fact that GEF is a highly qualified secretariat having the experience of managing similar projects, the secretariat should be fully utilized in the project approval process so that the AFB workload would be limited and AFB will be operated effectively and efficiently. In this regard, the following items should be discussed at AFB.

- What should be the criteria of projects to be approved by AFB and those to be approved by the secretariat?
Options:
 - Monetary volume (*if USD 2 mil. is the criteria, what would be the workload balance between the AFB and secretariat to approve projects? Which category would have more proposals than the other category: smaller or larger monetary volume?)
 - Difficult projects that are beyond the decision-making capacity of the secretariat (*how should it be defined?).
- There might be project proposals intentionally submitted in multiple phases in order to avoid the stricter review under the "USD 2 mil. criteria". What should be the mechanism to avoid such a situation?

16. Project cycle & approval (Project priorities)

As agreed in 5/CMP.2 para 2 (c), "projects should ... clearly be based on ... priorities of eligible Parties". Japan is in the opinion that if a Party will submit more than one proposal, priorities should be set by the Parties themselves.

17. Project cycle & approval (Information compilation by secretariat)

Operations of similar funds (*) would provide useful guidance and lessons especially for direct access. Japan would like to request such information to be compiled by the secretariat to assist the decision making of AFB members.

* Vertical funds such as the Global Fund to Fight AIDS, TB and Malaria (The Global Fund), and GAVI.

18. Sub-groups under AFB

The necessity of AFB sub-groups (working groups, working committees, standing committees) should be carefully examined to avoid the increase of cost and AFB workload. For this reason, Japan opposes in general to the establishment of standing committees.

In particular, Japan opposes to the idea of AFB sub-groups (AFB members plus experts) to review project proposals. Sub-groups having a limited number of AFB members cannot ensure regional balance equivalent to the AFB. In addition, a large number of project proposals are expected and the work-load of the sub-group to review or screen them are too large for board members. Therefore, as stated in para 6 above, Japan believes that the secretariat should be the main player to review or screen project proposal.

United Kingdom

- Grateful for the first stab at this as provided by Japan.
- Japan considers 9 points, in two broad categories: strategic priorities and strategic policies for the project cycle. Propose we add two more: (i) on the aims of the Fund, to spell out in somewhat more detail what the fund is trying to achieve and on (ii) strategic policies and guidelines about risk management. This should help set the context for the subsequent sections, and provide some 'direction of travel' for the Fund

Part 1: Strategic aim of the Adaptation Fund

- The ultimate objective of the AF is to provide international finance to help DC's manage the risks from CC to their development strategies. We strongly believe that this process has to be led by DC's themselves, as guided by and, preferably, integrated in their development objectives and plans, and in consultation with stakeholders. We also believe that much can be learnt from the Paris Declaration on Aid Effectiveness to ensure that DC's are truly in control of their own adaptation process and to keep the transaction costs in delivering this finance to a minimum.
- The AF should, we believe, provide financial resources to DC's in proportion to their specific vulnerability, and in a way which strengthens public policy capacity in adaptation across the full spectrum of economic activity. This posits a 'programmatic' rather than 'project' approach to financial assistance. However, much uncertainty still exists as to what constitutes effective adaptation, which means that a need still exists for pilot activities in order to inform the establishment of a global understanding on effective adaptation action.
- The core characteristics of the AF that will enable it to evolve towards a programmatic approach are: (i) flexibility in scope, modalities and activities and (ii) a strong 'learning' process to draw out the lessons on both effective adaptation and international support to adaptation.

- The need for flexibility posits that the Adaptation Fund should be able to fund both small scale (pilot) projects³, as well as larger scale (sector-wide) programmes. The need for a strong learning process means that (i) learning should be a prominent component of all proposals; (ii) UNFCCC Focal Points or equivalent national focal points for climate adaptation should be encouraged to establish processes that will enable them to enhance the learning process nationally and (iii) the Adaptation Fund Board should put in place mechanisms that will enable it to learn lessons from the programmes it supports, as well as from related initiatives, with support from the Secretariat.

Part 2: Strategic priorities

1. Countries

- We support the request from Japan to consider ways to ensure that DC's get access to funding in relation to their specific vulnerabilities. Suggest we propose a 'quick fix'⁴ to ensure this issue is considered at present, and the setting up of a working group / commissioning of a study to help the Board refine its procedures for more effective targeting at the time of the review of its operations;

2. Systems / sectors

- We agree with Japan that Parties should ensure that they aim to prioritise action on their most vulnerable systems, sectors and communities. We would add that it is the responsibility of DC's to establish what these priorities are, as guided by IPCC-AR4 and own analyses. The Board might wish to consider whether it would be appropriate, at this stage, to recommend that DC's base this prioritisation on national adaptation strategies⁵; however, if this were to be considered, this should be done in a way which promotes strategic decision making to ensure maximum impact rather than as a 'condition' on accessing resources.

Part 3: Strategic policies – project cycle

3. Project approval process

- We concur with Japan that we need to consider an approval process that ensures balanced and equitable access to funds in proportion with the amounts of funds available. Suggest Secretariat prepares options for the Board to consider these in advance of its meeting in September
- In addition of the options provided by Japan, we would request consideration of a 'call for proposal' approach;

³ Through, for instance, the 'small grant facilities' in DC Parties that request such a facility or other such mechanisms

⁴ Examples: maximum grant size / country based on expected AF resources, pipeline management on the basis of a call-for-proposal modality, ...

⁵ Examples: NAPA's, climate-resilient Poverty Reduction Strategies and National Development Plans

4. Qualification

- We concur with Japan that we need to respect the Fund’s principle of funding of full adaptation costs. This includes both full costs of additional activities in a development project to ensure the latter is protected against climate risks, and the full costs of stand alone adaptation initiatives within the context of an overall development plan, whichever applies;
- The difficulty is the identification of what constitutes ‘adaptation’ as against pure development. Ideally, adaptation is an integral part of any development plan, and in some cases it will be hard to tell which is a pure development, and which a pure adaptation activity. This is particularly the case for interventions that target increased community resilience rather than reduced risk exposure. Experience will evolve as the Adaptation Fund progresses, and the Fund might wish to request assistance from the NWP on this matter. In the meantime, the Secretariat may wish to provide a guide/list of the kinds of actions that are currently shown to promote adaptation with a view to assisting DC’s to plan their proposals⁶.

5. Medium term expenditure planning

- We concur with Japan that there is a need to consider a medium-term planning process for the AF, on the basis of projected revenue from CER acquisition and monetisation. This item should perhaps constitute the first in the list of items under Part 3

6. Project approval and delegation

- We concur with Japan that we need clear policies on who approves and where / how authority might be delegated to the Secretariat, and we look forward to proposals from the secretariat on this item.

Part 4: Strategic policies and guidelines – risk management

7. Risk management

- We concur with Ghana’s views, as expressed during the second meeting of the Adaptation Fund, that we need to develop clear policies on risk management, to minimize the reputational risk on the AF. We believe that this includes (i) defining principles for independent auditing, and what actions will be taken in case something gets picked up by independent auditors and (ii) making arrangements for independent M&E (as against internal M&E), to check whether programmes / projects achieve stated objectives, and what actions will be required in case achievements are below what is was stated in the programme objectives.
- We have provided some examples in the paper on Operational Policies and Guidelines and look forward to detailed proposals by the Secretariat.

⁶ But with the clear understanding that this list is not restrictive but serves as a guide

ANNEX 1: COMMENTS RECEIVED FROM THE TRUSTEE

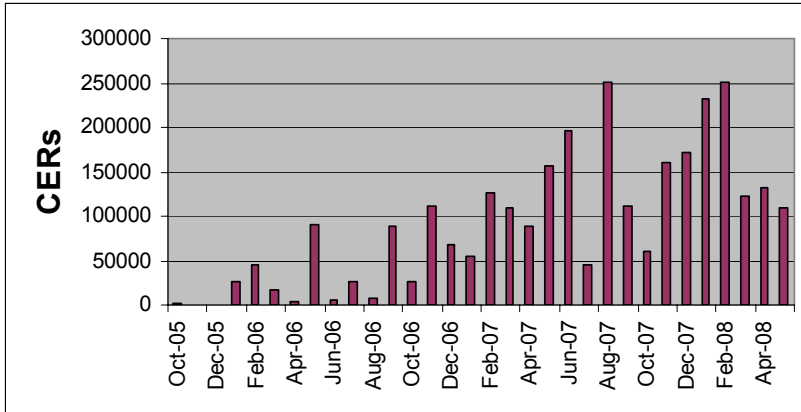
We have the following comments on papers posted that may be useful in advance of the meeting. The key point is that there are a number of elements inconsistent with the trustee proposal on CER monetization. Most important, we expect that the AF Board will allocate funding based on available cash in the trust fund, consistent with good practice and to ensure that projects do not suffer from funding shortfalls. We have proposed to the Board in earlier meetings and discussed with the CER monetization group that CER monetization should be fairly continuous, to maximize the amount of funding available at any given point in time and to level out short-term volatility of CER prices. This has implications for a number of papers, as detailed below along with some other comments.

Draft Strategic Priorities, Policies and Guidelines of the AF (AFB/B.3/9)

We suggest you notate these concerns in the Annex I list of suggested proposals received by AFB members for discussion purpose (since we understand it doesn't make sense to change the AFB member proposals reflected in Annex).

- Annex para 8 indicates that [the AF Board?] would "*allocate equally the estimated CER amount (USD 960 million during 2008-2012) among all Non Annex I Parties (=149 countries).*" Leaving aside whether it would make sense to allocate equally among countries, we are concerned with the use of USD 960 million. This number from the CER monetization paper is not an estimate and should not be used as even a hypothetical basis for allocation -- that is, it should not be used in a way that will make folks think it is certain. It is really only an example of the possible size of the AF based on current CER prices multiplied by expected future CERs issuance. There needs to be a caveat that the amount stated is only indicative, and will change for a variety of reasons, including market conditions.
- Annex 1, para. 14 - to avoid confusion, replace "the AF account" with "the AF Trust Fund." The AF account is usually used to mean the one holding CERs at the Clean Development Mechanism; cash proceeds will go in the AF trust fund.
- We agree, needless to say, with paragraph 14 of the Annex, but then paragraph 16 is troubling and we think its inconsistency with paragraph 14 might be specified? The idea of a 5-year plan of CER monetization that would "determine the rate" for monetization doesn't mesh with the monetization guidelines we expect to propose. It also suggests that the same amount could be funded in each year of the five-year plan, which is not likely to reflect actual cash available. Assuming there is a post-2012 agreement, it seems widely agreed that over time the amount of CERs allocated annually to the AF's account at the CDM will increase, so the same allocation level each year would not reflect the likely increase in value.
- Volume and timing of monetization are issues that will be included in trustee proposals and taken up by the Board in their adoption of monetization guidelines at their next (December?) meeting. They should be discussed with the allocation needs in mind but cash availability should drive allocation levels. Doing it the other way around is likely to cause problems.

Same idea but slightly different issue -- the approach suggested (monetization based on demand for financing) is inconsistent with the approach recommended by the Trustee of an ongoing monetization on exchanges. The volatile and unpredictable issuance of CERs (see graph) suggests that the AF Board should approve projects/programs based on cash available (and not on demand) in the AF Trust Fund. Cash available in the AF Trust Fund will be unpredictable to a certain degree because time and volume of CER issuance is unknown and because future CER prices are unknown. Our recommended approach of ongoing monetization on exchanges will level out the short-term volatility of CER prices.



Draft Rules of Procedure of the AF Board (AFB/B.3/5)

- We know this is an area of great attention and challenge, but are concerned that the document's definitions of implementing and executing entities leave only subtle differences between the two. Can it be clearer that the IEs are agreed ex ante while the EE concept is project-specific? That is, can it be clearer that identified IEs are put on a list somewhere after their review and approval by the Board when it decides its published criteria are met; that in the project approval process the Board specifically decides that EEs meet published criteria set by the Board, and what the difference in those sets of IE and EE criteria would be? And how do the EE criteria differ from the "audit mechanisms and due diligence criteria as established by the Board"?

Draft Strategic Priorities, Policies and Guidelines of the Adaptation Fund (AFB/B.3/8)

- The document should address the issue of limited resources/potential scarcity of funds. As noted, we think the AF Board should only commit funds that are available in cash in the AF Trust Fund. That should be included here, or if it is not the case, the AF Board would have to define how to allocate and to direct the trustee to disburse limited resources if there are more claims for disbursement than cash available.
- In general, the issue whether there might be three ways of receiving funding (as implied in the Decision) or two (consistent with the main message we hope we're getting to -- direct

access means governments designating EEs) needs to be presented as clearly as possible.

Inconsistent language issues:

- Section III. para 12 says "Consistent with decision 5 CMP.2 Parties will have access to funds either directly or through implementing entities or executing entities." [3 ways to get funding]
- Section IV, para. 18, says that Parties have (a) "direct access by eligible parties, working with executing entities.., and(b) through board-recognized implementing entities." [2 ways to get funding]
- Para 18(a) says (1) "parties shall submit requests directly to the Board for funding for concrete adaptation projects.. (2) Parties can also nominate an in-country executing entity to develop...." Para 18(b) says (3) access through implementing entity. [3 ways to get funding]
- Section VII para 37 clarifies that Direct access means the Party must identify a government agency or other entity that will submit the project. [2 ways]
- Section VII para 39 says "whether the project is submitted directly by a Party or through an executing or an implementing entity..." [3 ways]
- para 67 says either directly or through IEs, no mention of EEs [2 ways]

Assuming we're working toward the definition in para 37, then paras 12, 18 and 39, 67 and Section X Step 2, should be amended accordingly.

- Section III para 13 point (c): what is meant by "separation from other funding sources"?
- Section III para 17: We suggest adding, for clarity: "The Board will ensure that the [entities/Parties] that receive funding from the AF have in place the following:"
- Section IV. Access Modalities (para. 19) and Section VII. B. Entities (para. 35-38)- We note that the Bank's expectation is that IEs would initially be limited to the GEF agencies, and recommend rephrasing the second sentence to read "Such entities should adhere to the fiduciary and other standards established by the Board, in consultation with the Trustee and the Secretariat." Para 38 should be clarified -- these are required criteria, yes? that is, not a wish list...
- Section IX. Project Cycle and Approval (para. 60) - In approving projects, the Board should take into account the availability of resources in the Trust Fund.
- Section IX. C. Disbursement (para. 70 - 72) - "Bank as" in the first sentence of para. 70 should be deleted, and "principal" should be replaced with "any", and the GEF and Global Fund models should not be explicitly named here, rather the two structures. Also include "Transfer of funds from the Trustee will be subject to availability of resources in the Trust

Fund." The first sentence of para. 71 would need to be deleted and inserted at the end of para. 71 following, "The Trustee will not enter into any agreement with executing entities or eligible recipients." Para. 72 also needs to make it clear that if the AF is not endowed with the necessary legal and administrative capacity to perform fiduciary functions, we will not disburse funds to anyone other than IEs. We'd be happy to work with you further on the wording of this section.

- Section X. A. Step 6 - please add that transfer of funds from the Trustee is subject to assurance of legal capacity and the availability of resources in the Trust Fund. (A detailed version might be: "Once the Board has approved and signed the grant agreement, in the case of direct access and assuming the AF is endowed with legal status, the Trustee will transfer funds, subject to the availability of funds in the AF trust fund. In the case of a project proposal submitted on behalf of an eligible Party by an implementing entity, the funds will be transferred, subject to availability of funds, upon approval of the grant request by the AF Board and pursuant to an agreement entered into between the Trustee and the implementing entity.") Also, the box text says "an authority to implement the project has been delegated by the AF Board" to the IE/EE -- the AF Board does not have any authority to implement the project. Their authority is simply to approve funding to the project.

Establishing Board Committees (AFB/B.3/12)

- Should this cover how often will the Committees meet?
- The document, proposed by the chairman, suggests four committees (Administrative, Operations and Ethics; Finance and Audit (FAC); Policy, Strategy and Outreach; Projects and Programmes). The trustee should be a (non-voting) member of the FAC which deals with all the trustee issues.
- *"Provide advice and report to the AF Board on the monetization of the CERs"*
- *"Make recommendations to the Adaptation Fund Board on the selection of external auditors for the Adaptation Fund"* please note that the Bank's own external auditor would be auditor for the Adaptation Fund trust fund.
- *"Provide advice to the Adaptation Fund Board on the Adaptation Fund's fiscal management policies and processes, including asset-liability coverage, financial forecasts, modalities of contributions and investment policies for the Adaptation Fund's financial assets"*. [Is this needed?]
- Policy, Strategy and Outreach Committee: *"Advise the Board on overall resource mobilization policy and approach"* this looks like text from an organization that relies primarily on ODA contributions; will the AF need an overall resource mobilization policy given its quite different primary source of funds? if it does, this should be jointly under the FAC's jurisdiction as well as the PSO.