



CIF/DM.2/3
April 3, 2008

Design Meeting on Climate Investment Funds
Washington, D.C.
April 14-15, 2008

PROPOSAL FOR A STRATEGIC CLIMATE FUND

The Challenge

1. Climate change presents an urgent challenge to the well-being of all countries and particularly to the poorest countries and the poorest people. The Intergovernmental Panel on Climate Change (IPCC) makes clear that warming of the climate system is unequivocal and that delay in reducing emissions significantly constrains opportunities to achieve lower stabilization levels and increases the risk of more severe climate change impacts. The globe is already experiencing the effects of climate change through changes in weather patterns and ecosystems. Continued GHG emissions at or above current rates would cause further warming that would threaten the development gains hard-earned by developing countries over the past decades and progress towards achieving the Millennium Development Goals.

2. The impacts of climate change include, among others: increased frequency and severity of droughts, floods and storms, water stress, decline in agricultural productivity and food security, and further spread of water-related diseases, particularly in tropical areas. The poorest countries and communities are likely to suffer the earliest and hardest because of their geographical location, low incomes, and low institutional capacity, as well as their greater reliance on climate-sensitive sectors like agriculture. Addressing climate change is therefore central to the development and poverty reduction agenda.

3. Tackling climate change is feasible while non-action is not affordable. Cost estimates from several recent studies vary from 3 percent of global GDP (IPCC) to annual costs of only 0.1 percent of global GDP by 2050 (OECD). Stabilization of GHG concentrations within the levels that would keep the impacts of climate change manageable, would require limiting global GHG emissions through multilateral action involving policy incentives and the deployment on a global scale of a portfolio of currently available and future low-carbon technologies in a range of sectors including energy supply, transport, buildings, industry, agriculture, forestry and waste management. Early mitigation of GHG emissions causing changes in climate will significantly decrease future adaptation costs, and especially the burden on the poor. Even if efforts to reduce GHGs are successful, some degree of climate change impacts will continue to occur in the next decades. An effective response to climate change must combine both mitigation – to avoid the unmanageable - and adaptation – to manage the unavoidable.

4. The distributional impact of the costs of climate action remains the key issue. Because of their lower historical contribution to CO₂ concentrations, developing countries expect a cooperative arrangement to finance their transition to low-carbon growth in accordance with the principle of common but differentiated responsibilities and respective capabilities. In addition, as shown by a recent OECD study, developing countries may face far bigger losses in GDP from the mitigation action than the industrial world. Therefore, successful global action to tackle climate change requires substantial financial and technology flows from developed to developing countries. The UN Framework Convention on Climate Change (UNFCCC) estimates that by 2030 financial

flows to developing countries should be in the order of US\$100 billion annually to finance mitigation and somewhere between US\$28-67 billion for adaptation. While over 80 percent of these investment flows are expected from the private sector, public sector financing is essential to generate the enabling environment for private sector financing fast enough to make a difference in current investment decisions.

5. Agreement in Bali launched negotiations towards long-term cooperative action to transform the paths of economic development. The key areas for negotiations include mitigation of climate change, adaptation, technology development and transfer, and provision of financial resources in support of developing countries' actions. The urgency to initiate transformation towards low carbon and climate resilient development requires immediate financing and incentives that can act as a bridge while negotiations take place and until carbon markets, other financial mechanisms and policy signals have matured.

Background to proposal to establish the Climate Investment Funds

6. The UN Framework Convention on Climate Change (UNFCCC) recognizes the need for financial resources to be provided to developing countries to assist them in meeting the costs of mitigation and adaptation measures to respond to the challenge of climate change. Pursuant to article 11 of the UNFCCC, the GEF has been designated as the financial mechanism of the Convention. The GEF also manages two funds established by the Conference of the Parties to the UNFCCC and which provide financing for climate change activities: the Special Climate Change Fund and the Least Developed Countries Fund.

7. The Adaptation Fund that was established by the Parties to the Kyoto Protocol of the UNFCCC to finance concrete adaptation projects and programs in developing countries that are Parties to the Kyoto Protocol. The Fund will be financed with 2% of the Certified Emission Reduction (CERs) issued for projects of the Clean Development Mechanism (CDM) and with funds from other sources.

8. In addition to the financial mechanism defined under article 11 of the UNFCCC, paragraph 11(5) stipulates that “developed country parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels”.

9. Article 4(1) of the UNFCCC provides for all parties to:

(a) develop, periodically update, publish and make available ... ***national inventories*** of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol;

(b) formulate, implement, publish and regularly update national and, where appropriate, regional programmes containing ***measures to mitigate climate change*** by addressing anthropogenic emissions by sources and

removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, and measures to facilitate adequate adaptation to climate change;

(c) promote and cooperate in the development, application and diffusion, including transfer, of *technologies*, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors;

(d) promote sustainable management, and promote and cooperate in the conservation and enhancement, as appropriate, of *sinks and reservoirs* of all greenhouse gases not controlled by the Montreal Protocol, including biomass, forests and oceans as well as other terrestrial, coastal and marine ecosystems;

(e) cooperate in preparing for *adaptation* to the impacts of climate change; develop and elaborate appropriate and integrated plans for coastal zone management, water resources and agriculture, and for the protection and rehabilitation of areas, particularly in Africa, affected by drought and desertification, as well as floods;

(f) take climate change considerations into account, to the extent feasible, in their relevant *social, economic and environmental policies* and actions...;

(g) promote and cooperate in scientific, technological, technical, socio-economic and other *research, systematic observation* and development of data archives related to the climate system ...;

(h) promote and cooperate in the full, open and prompt *exchange of* relevant scientific, technological, technical, socio-economic and legal *information* related to the climate system and climate change, and to the economic and social consequences of various response strategies;

(i) promote and cooperate in *education, training and public awareness* related to climate change and encourage the widest participation in this process, including that of non- governmental organizations.

10. Article 4(7) of the UNFCCC recognizes that “the extent to which developing country parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer to technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing countries.”

11. Under the Bali Action Plan that was adopted by the thirteenth session of the UNFCCC Conference of the Parties, Parties decided to launch “a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012.”

12. In paragraph 11 of the Bali Action Plan, the Conference of the Parties, “agrees that the process shall be informed by, *inter alia*, the best available scientific information, experience in implementation of the Conventions and its Kyoto Protocol, and processes thereunder, outputs from other relevant intergovernmental process and insights from the business and research communities and civil society.”

Enhancing the Role of the Multilateral Development Banks in Addressing Climate Change

13. Within this context, and recognizing that climate change is central to the sustainable development and poverty reduction agenda, the World Bank Group, in consultation with the regional development banks and interested countries, is seeking to establish a portfolio of strategic Climate Investment Funds (CIF)¹ and programs to scale-up financing available for policy reforms and investments that achieve sustainable development goals through a transition to a low carbon development path and climate-resilient economy.

14. In developing proposals for the Funds, the following principles have been taken into account:

- (a) The core mission of the multilateral development banks is growth and poverty reduction. Climate change mitigation and adaptation considerations need to be integrated into the development process;
- (b) Multilateral development banks can and should play a role in ensuring access of developing countries to adequate financial resources and appropriate technology for climate actions.
- (c) The multilateral development banks should provide financing to increase climate resilience and for mitigation programs to address climate change that are country-driven and designed to support sustainable development. Activities financed by the fund should be based on a country-led programmatic approach and should be integrated into country-owned development strategies, consistent with the Paris Declaration focus on country ownership;

1. ¹ It is proposed that the portfolio of funds/programs initially include, if donor support warrants:

- a. the Clean Technology Trust Fund,
- b. the Strategic Climate Fund, including the Pilot Program for Climate Resilience; and
- c. the Forest Investment Trust Fund

- (d) The UN is the appropriate body for broad policy setting on climate change, and the multilateral development banks should not preempt the results. Actions to address climate change should be guided by the principles of the UNFCCC. The multilateral development banks should assist developing countries to build country-level knowledge, capacity and development project experience about the feasibility and implications of addressing climate change;
- (e) It is appropriate for the multilateral development banks to build partnerships with each other and a wide range of institutions and stakeholders on climate change, including the private sector. It doing so, each bank should remain accountable to the policies adopted by its governing bodies.

15. The need to further mobilize and to seek innovative financing instruments for climate change actions is a critical lesson of the Clean Energy Investment Framework. This experience is reinforced by strategic directions for scaling-up support by the multilateral development banks to climate action. The CEIF has provided the basis for definition of a range of initiatives within each multilateral development bank with a set of concrete results and impacts in terms of scale-up. The scale of action required points to the need to take the important lessons learned from pilot and prototype projects and programs and capacity building efforts, such as those supported by the Global Environment Facility (GEF) through its implementing agencies, to broader programs which will help transform economies so that the objective of alleviating poverty and fostering growth can be met through new ways of approaching low-carbon growth and enhancing resilience. By building on these lessons and capitalizing on the capabilities of the World Bank Group, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank (hereinafter referred to as the MDBs), a scale-up of funding delivered in a package combining sectoral and private sector knowledge with the full range of development finance instruments will allow early transformational climate action while supporting programs which are tightly linked to a country's economic and sectoral priorities and objectives.

16. Initially, the Funds are expected to address through public and private sector activities: financing clean technology for climate change, promoting investments for sustainable forest management², and piloting the integration of climate resilience into development plans and budgets.

17. The funds/programs will aim to:

- (a) provide incentives for scaled-up action and transformational change (both mitigation and adaptation) and for solutions to the climate change

² Recognizing the wide range of issues around sustainable forest management and the robust number of partners active in this area, development of a forest investment fund will require extensive consultations, leading to negotiations on a forest fund being on a different schedule to the other funds.

- challenge and poverty reduction in developing countries, consistent with their poverty reduction and sustainable development strategies;
- (b) promote international cooperation on climate change to support progress towards a post 2012 climate change agreement;
 - (c) provide experience and lessons in responding to the challenge of climate change through learning-by-doing;
 - (d) utilize the skills and capabilities of the international financial institutions to raise and deliver concessional climate financing at a significant scale to unleash the potential of the public and private sectors to achieve meaningful reductions of carbon emissions and greater climate resilience;
 - (e) complement other multilateral financial mechanisms, such as the GEF and the Adaptation Fund, and bilateral sources of financing and seek co-financing where appropriate; and
 - (f) maximize co-benefits in other areas of sustainable development, particularly in relation to sustainable management of natural resources and ecosystem services.

18. The Funds will make available a range of new financing, credit enhancement and risk management tools such as loans, credits, guarantees, grants and other support, targeted to the needs of developing countries. This strategic response will be implemented by the MDBs and other partners and will focus on accelerating and scaling up transformational low carbon and climate resilient investments.

19. The World Bank will initially establish a Strategic Climate Fund and a Clean Technology Fund. A Forest Investment Fund is also under consideration, which may be established in late 2008 or early 2009, depending on the outcome of planned consultations and collaboration on the design of the fund with partners, including the UN system.

Strategic Climate Fund

20. The Strategic Climate Fund (SCF) will aim to:

- (a) provide guidance on the convening of the Partnership Forum for exchanging views among a broad range of interested stakeholders on the strategic directions and results of programs and activities of the multilateral development banks to address climate change;
- (b) promote collaboration and synergies among the multilateral development banks in the area of climate change;
- (c) identify and promote targeted program initiatives for scaling up efforts through the MDBs to address investment needs for enhanced climate change action;
- (d) promote and channel increased financing for addressing climate change through targeted programs to be established as part of the Strategic Climate Fund or through separate funds like the Clean Technology Fund or other partner funds, such as the Forest Carbon Partnership Fund;

- (e) provide an opportunity for sharing and disseminating lessons learned, recognizing the importance of enhancing knowledge and building on experiences in this new knowledge area.

SCF Programs

21. It is proposed that within the framework of the SCF, targeted programs with dedicated funding may be established to provide financing to pilot new development approaches or scale-up activities aimed at a specific climate change challenge or sectoral response. The SCF will remain flexible and open to the establishment of programs as new challenges are identified and circumstances change. Resources will be mobilized and pledged to specific programs to be financed within the SCF. Arrangements to guide the program, ensure effective partnerships, and provide accountability will be defined for each program to ensure the effective operations of the program. It is expected that each program will have an oversight committee with balance representation among contributors and recipients and inclusion of major partners.

22. A Pilot Program for Climate Resilience will be the initial program of the SCF. The scope, objectives and governance of this pilot program are described in the annex to this document.

23. The scope, objectives and governance for programs established subsequent to the establishment of the SCF will be approved by the Trust Fund Committee of the SCF.

Contributions

24. A donor may choose to contribute directly to any of the CIF funds or it may contribute, through the Strategic Climate Fund, to one or more of the CIF funds, to any established program under the SCF, or to other funds agreed with the Trustee.

Governance of the SCF

Trust Fund Committee

25. A Trust Fund Committee will be established to oversee the SCF. The Trust Fund Committee will consist of:

- (a) ten representatives of governments. Donor countries to the SCF will be invited to identify five representatives and recipient countries of the SCF or other funds will be invited to identify five representatives, taking into account the need for balanced and equitable representation and giving due weight to the funding efforts of all donors. Such representatives will serve for two year terms. Representatives may be reappointed. An opportunity for the respective groups to meet and agree on members will be provided during the Partnership Forum (see below);

- (b) a representative of the Trustee of the Funds;
- (c) a representative of the MDB partners to be identified by the MDB Committee and chosen on the basis of rotation among the MDBs .

26. To ensure good linkages with key partners so as to promote the efficient use of resources and complementarity with other sources of financing, the Trust Fund Committee will invite as observers representatives of other organizations with a mandate to address climate change, such as the GEF, UNDP, UNEP, and the UNFCCC.

Chair of the Trust Fund Committee

27. The Trust Fund Committee will elect a chair from among its members for the duration of the meeting who will co-chair the Trust Fund Committee meeting with the World Bank Vice President for the Sustainable Development Network.

Decision making

28. Decisions of the TFC will be reached by consensus. If consensus is not possible, the proposed decision will be postponed or withdrawn. Consensus is a procedure for adopting a decision when no participant in the decision-making process opposes the contents of the decision strongly enough to block a consensus. Consensus does not necessarily imply unanimity. A dissenting member who does not wish to block a decision may choose to attach a statement or note to the decision reached by consensus to the effect that the member does not support the decision.

Functions of the Trust Fund Committee

29. The Trust Fund Committee will be responsible for:
- (a) approving the establishment of programs under the SCF;
 - (b) reviewing annual reports of the SCF;
 - (c) reviewing annual reports from the MDBs on their climate change programs and activities;
 - (d) providing guidance on the convening of the Partnership Forum;
 - (e) reviewing reports from the Trustee on the financial status of the fund; and
 - (f) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund.

Frequency of meetings

30. The Trust Fund Committee will meet once a year. The Trust Fund may agree to meet more frequently if necessary to discharge its responsibilities.

Partnership Forum

31. A Partnership Forum, a broad-based meeting of stakeholders, including donor and recipient countries participating in the funds/programs, UN and other agencies, GEF,

UNFCCC and NGOs would be convened annually to discuss the strategic directions and results and impacts of the funds/programs. The Partnership Forum will be chaired by the World Bank Vice President for the Sustainable Development Network. At the time of the Partnership Forum, recipient countries participating in a particular fund or SCF program will be invited to meet to discuss their experience and views on the fund or program. The Forum will provide an opportunity for countries to agree on members of the SCF Trust Fund Committee.

Supporting units established under the CIF

32. The following units will provide services to the funds and programs:

- (a) MDB Committee;
- (b) Administrative Unit;
- (c) Trustee.

MDB Committee

33. To facilitate collaboration, coordination and information exchange, a MDB Committee comprising representative of the MDBs will be established. The MDB Committee will meet quarterly or with such other frequency as deemed necessary by the committee. With respect to the SCF, the MDB Committee will:

- (a) identify specific areas of MDB cooperation linking transformational policy initiatives with SCF programs;
- (b) prior to each meeting of the SCF Trust Fund Committee, review a provisional agenda and documentation prepared by the Administrative Unit;
- (c) monitor progress in implementing SCF programs;
- (d) review a draft annual consolidated report on the CIF activities, performance, and lessons, including details of the fund's portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information;
- (e) serve as a forum to ensure effective operational coordination, exchange of information and experience;
- (f) advise the Administrative Unit on its work program, including the implementation of a comprehensive knowledge management system, results measurement system and learning program, taking into account opportunities for synergies with the activities of the MDBs; and
- (g) perform any other functions assigned to it by the SCF Trust Fund Committee.

Administrative Unit

34. A CIF Administrative Unit will be established to assist the work of the Climate Investment Funds, including the SCF, and to support the trust fund committees and the oversight committees of the SCF programs. With respect to the SCF, the Administrative Unit will:

- (a) prepare all documentation required for review by the SCF Trust Fund Committee, including developing an agenda for the Trust Fund Committee meeting, which will first be reviewed by the MDB Committee;
- (b) conduct background research and analyses as requested by the Trust Fund Committee;
- (c) prepare an annual consolidated report on the trust fund's activities, performance, and lessons, including details of the trust fund's portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information;
- (d) manage a comprehensive database of the trust fund activities, knowledge management system, result measurements system and learning program;
- (e) service the meetings of the Trust Fund Committee and oversight committees of the SCF programs;
- (f) manage partnerships and external relations, including convening meetings of the MDB Committee and the Partnership Forum;
- (g) collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities; and
- (h) perform any other functions assigned to it by the Trust Fund Committees.

Trustee

35. The IBRD would serve as Trustee for the SCF. The Trustee would act as financial intermediary with respect to the SCF proceeds administered by other MDBs and, in that capacity, would have no responsibility to the SCF contributors for the use of such proceeds over and above those responsibilities contained in the contribution agreements with contributors, agreements with MDBs, and relevant World Bank rules and regulations. Such responsibilities will be borne by the MDB in accordance with its own fiduciary framework, policies, guidelines, and procedures. Information on the role of the Trustee is included in Annex B to this document.

Monitoring and Evaluation

36. There will be annual reporting on the SCF's programs to the SCF Trust Fund Committee, and an evaluation of activities will be carried out after three years of operations. Results achieved through the fund's programs should be published and publicly available. Full reporting criteria will be agreed by the Trust Fund Committee.

Equity Stake and Reflows

37. Capital subscribers will acquire an equity stake in the SCF, and it is expected that the Trustee will establish a mechanism for applying reflows, on a pro rata basis, to a donor's share of the fund, as required. In the event of winding up of the SCF, donors will have a claim on the residual value of the share of the resources in the SCF attributable to them.

ODA Scoring

38. Donor contributions to the SCF will qualify as Official Development Assistance. The SCF will meet the DAC definition and guidelines for reporting ODA.

Duration of the CIF

39. Recognizing the on-going deliberations regarding a post-2012 climate change agreement, including an associated financial architecture, the SCF and its programs should be reviewed in light of the final agreement and consideration given to the revision or sunset of the SCF, as appropriate.

Administrative fees

40. The Trustee, the Administrative Unit, and the MDBs will perform specific administrative services and project related activities. Compensation for administrative services and project related activities will be on the basis of full cost recovery for the entities, and will be guided by the principles of cost consciousness, reasonableness, and transparency.

Annex A

PILOT PROGRAM FOR CLIMATE RESILIENCE

1. Rationale: Actions that increase resilience to climate change need to become an integral part of national and sectoral development plans to manage the adverse impacts, and opportunities, of projected climate change and variability, regardless of the scale of mitigation undertaken over the next decades. Developing countries need technical and financial support to routinely consider climate information, impacts, risks and cost effective options to achieve greater climate resilience in their planning and budgeting. This needs to be done across the economy and society so governments can make choices about the most cost effective mix of responses, ranging from policy measures to shift incentives to investment adjustments, extension of services and improved contingency planning, building on progress in disaster risk reduction. Proper policies relating to climate resilience can improve the local environment, increase resilience to natural disasters, and facilitate the dissemination of innovative technologies and autonomous adaptation by individuals and the private sector. The aim of the Pilot Program for Climate Resilience (PPCR) is to support rapid learning-by-doing on an integrated approach to climate resilience and programmatic lending, in order to provide lessons which will feed into the operation of a successful Adaptation Fund.

2. National Adaptation Programs of Action: Most Least Developed Countries have completed, or have nearly completed, National Adaptation Programs of Action (NAPAs). Preparation and implementation of the NAPAs is supported through the multi-donor Least Developed Countries Fund (LDCF) administered by the GEF. NAPAs identify priority activities that respond to urgent and immediate needs with regard to adaptation to climate change. They take into account existing coping strategies at the grassroots level and build upon them to identify priority activities, rather than focusing on scenario-based modelling to assess future vulnerability and long-term policy at state level. There is a need to build upon and complement the NAPAs with comprehensive and strategic incorporation of climate resilience into regular development planning and budgeting.

3. Adaptation Fund: The Board and the management arrangements for the Adaptation Fund (AF) were agreed at the Bali UNFCCC Conference of the Parties in late 2007. The AF is expected to become the main financing vehicle for adaptation under the UNFCCC but its operating procedures and priorities are still in the early stages of formulation. Resources for the AF are likely to build slowly as CDM activity advance though the First Commitment Period and CERs are converted to cash. The proposed PPCR should enable progress on building climate resilience into development plans and sectoral strategies to be made quickly in pilot countries. It is proposed that the oversight committee of the PPCR work closely with the Board of the AF to ensure that the PPCR pilot programs are complementary to the work of the AF and strengthen the knowledge-base for future AF actions. The Board of the Adaptation Fund will be invited to be an active participant in the design, governance and monitoring and evaluation of the PPCR, through representation on the PPCR oversight committee, involvement in the expert

group and through PPCR reporting to the AF Board on programmes, achievements and lessons learned.

4. Integrating Climate Resilience in Development: There is an urgent need to go beyond assessments of vulnerability and small scale projects and to gain more experience in integrating climate resilience routinely into development plans and activities. We need to learn more about how to build climate resilience in a cost effective way and which institutional structures provide the best supporting framework for autonomous adaptation action by communities and the private sector. This experience is essential to provide guidance on how to effectively deliver international support, whether through grants or through the Multilateral Development Banks' (MDBs) highly concessional lending programs, and on how to design scaled-up adaptation finance for the longer term. This experience can be gained only through full scale interventions covering the full range of sectors and financial resources, and with sufficient resources to move quickly from planning to action. The PPCR will provide the opportunity to pilot this.

5. Objectives: The PPCR will pilot and demonstrate ways to integrate climate risk and resilience into core development planning. The pilots will be country led and will build on National Adaptation Programs of Action and other relevant country studies and strategies. The intention is to learn lessons that will be useful for designing scaled-up adaptation programs, including in the context of international climate negotiations. The PPCR is intended to provide pilot finance in the short term, with a 2012 review, with the intention that the lessons learned would be taken forward in the post-2012 adaptation financing architecture agreed by the UNFCCC. The target size of the pilot program is \$0.5 billion to \$1 billion. The PPCR will:

- (a) provide experience and knowledge on how to integrate resilience to climate change into core development planning and budgeting;
- (b) explore how to best support such integration through international finance in a manner consistent with the Paris Declaration on Aid Effectiveness;
- (c) report on programs, achievements and lessons learned to the Board of the Adaptation Fund and share these more widely; and
- (d) improve climate resilience in pilot countries.

6. Governance: Decision making will be primarily at the country level with national accountability and will include national civil society and the private sector. An oversight committee for the PPCR, with strong participation from developing countries, will be set up. Decision making of the committee will be through consensus. It is proposed that membership on the oversight committee include all recipient countries taking part in the pilot program³; contributors to the pilot program; and the developing country Chair or co-Chair of the Board of the Adaptation Fund. Other partners will be invited as observers of the oversight committee, including MDBs; UNDP, UNEP and GEF; and civil society.

³ Until the pilot countries are selected, consideration can be given to inviting the Board of the Adaptation Fund to identify 5 representatives of developing countries to serve on the oversight committee.

7. Country Eligibility: The PPCR will move quickly to provide 5 to 10 countries with scaled-up support for integrating climate resilience into their development planning and budgets. The pilot countries will be based on those eligible for MDB concessional funds, including Small Island Developing States. An Expert Group will be established to provide advice on country selection based on transparent vulnerability criteria; preparedness to move to a strategic approach to integrating climate resilience in development; and country distribution across regions and types of hazards (as appropriate to a pilot program). The Board of the Adaptation Fund will be invited to nominate members to be part of this Expert Group. Final selection of pilot countries will be the decision of the oversight committee.

8. Types of investments: Two types of activities will be supported over the next three to five years in recipient countries.

- (a) The first will provide technical assistance to enable developing countries to build upon existing national work, including the national communications and NAPAs, to integrate climate resilience into core development plans and budgets. Approximately one to two million dollars will be allocated to each pilot country for this phase. This phase will provide support for technical assistance and capacity building needs as identified by the pilot country, to enable the government to plan for climate resilient development, with input from civil society and the private sector. Pilot countries will identify preferred partners for this technical assistance and capacity building work. This may draw upon expertise from, for example, UNDP, UNEP, GEF, civil society organizations, research institutes, and MDBs. It will include support to assess and reform institutional arrangements to facilitate the inclusion of climate risk (and opportunities that may arise from climate change) in development planning and the decision making by civil society and the private sector. The bulk of this work should be completed within approximately one year of the recipient country being identified, but there should be an emphasis on leaving a strategic planning process in place in the longer term. The duration and type of technical assistance will vary according to the needs identified by the pilot country and the extent to which climate resilience plans and strategies are already in place.
- (b) The second type of support will provide additional financial resources to help fund investments identified in the climate resilient development plans. In this phase, there will be an emphasis on budget support approaches where possible and blending with national financing and existing international support mechanisms. The level of investment will vary according to country circumstances.
- (c) A key objective of the PPCR is to integrate climate resilience into development budgeting including the blending of grant and concessional finance with national financial resources. Grant resources will be available to provide support for technical assistance and institutional adjustment. Significant resources will be available through the PPCR in the form of grants or highly concessional lending

that can be blended with existing concessional funding and national resources to increase the climate resilience of existing development priorities. This is a core learning component to be derived from the practical piloting of climate resilient development at the national scale.

- (d) Individual grants/concessional loans under the work program will be processed through the MDBs selected by the country, which will be expected to work with other partners at the country level, such as UNDP. Each operation would follow the investment policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards.

9. Duration of PPCR: The PPCR will provide pilot finance in the short-term. Recipient countries will be identified and the first phase of funding for technical assistance to prepare climate resilient development plans will occur during 2008-2009. The second phase of support to implement these plans will run for three to four years. Many of the learning objectives should be achieved within the first one to two years. The effectiveness and lessons learned from the pilots will be independently evaluated before 2012. The Board of the Adaptation Fund will be invited to play a leading role in the evaluation. Given its pilot nature and the establishment of the Adaptation Fund, it is expected that the program will close at the end of the pilot. The PPCR itself will be reviewed in 2012 with the intention that the lessons learned would be taken forward in the post-2012 adaptation financing architecture agreed by the UNFCCC.

Annex B

ROLE OF TRUSTEE

Management of funds

1. The World Bank (IBRD), through its Multilateral Trusteeship and Innovative Financing Department (MTIF) under the Concessional Finance and Global partnerships Vice Presidency (CFP), would serve as Trustee of the Funds. In this capacity, it will be responsible for the following functions:

- (a) establishing and maintaining appropriate records and accounts to identify contributions and other receipts, including reflows;
- (b) recording all funding decisions made by the Trust Fund Committees to monitor funding status of the CIF;
- (c) making commitments to the MDBs in accordance with the decisions of the Trust Fund Committees against the available resources of the Trust Fund and making corresponding cash transfers;
- (d) preparing financial reports and audit coordination for each of the funds; and
- (e) investing the proceeds of the funds, including currency conversions and cash management.

2. Pending disbursement of the proceeds, IBRD will invest the Funds' resources in accordance with World Bank policies and procedures for the investment of trust funds that it administers. Income earned on each Fund will be credited to the Fund, thus increasing resources available for operations.

3. IBRD will act as financial intermediary with respect to the CIF's proceeds administered by the MDBs and, in that capacity, will have no responsibility to the Funds' contributors for the use of the proceeds of such funding over and above those responsibilities contained in the contribution agreements and agreements with MDBs. Such responsibilities will be born by the MDBs in accordance with their own fiduciary frameworks, policies, guidelines, and procedures. MDBs will report on these issues, through their Boards, to the Trustee.

Financial Reporting

4. The Trustee will be accountable to the Trust Fund Committees for the performance of its fiduciary responsibilities. The Trustee will submit regular reports to each Trust Fund Committee on the financial status of the respective fund. The Trustee will provide for an external annual audit of the accounts of the funds. The Trustee will forward to the Trust Fund Committees a copy of the annual, audited financial statements of the respective fund together with the auditor's written report of the audit findings.

Execution of Legal Agreements

5. As Trustee, IBRD will execute contribution agreements with each contributor to the SCF, which sets out the terms and conditions applied to administration and management of the contributions made to the fund. The Trustee will also enter into agreement with each of the MDBs, which sets out the terms and conditions of commitment, including remedies in case of breach of the agreement, and transfer of SCF resources to the MDBs as well as reporting requirement.