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DRAFT

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 the strategic Climate Investment Funds (CIF)¹ 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 the funds, the following principles have been taken into account:

- a) The core mission of the MDBs is growth and poverty reduction. Climate change mitigation and adaptation considerations need to be integrated into the sustainable development process as addressing these issues contributes to the basic human needs of the poorest who are disproportionately impacted by climate change;
- b) MDBs can and should play a role in ensuring access of developing countries to adequate financial resources and appropriate technology for climate actions;
- c) The MDBs should provide financing for adaptation and 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;
- d) The UN is the appropriate body for broad policy setting on climate change, and the multilateral development banks should not preempt the results of climate change negotiations. Actions to address climate change should be guided by the principles of the UNFCCC.

1. ¹ It is proposed that the Climate Investment Funds include:

- a. the Clean Technology Trust Fund, and
- b. the Strategic Climate Fund, which initially will include a Pilot Program for Climate Resilience;

- e) The MDBs should assist developing countries to build country-level knowledge, capacity and development project experience about the feasibility and implications of addressing climate change;
- f) It is appropriate for the MDBs to build partnerships with each other and a wide range of institutions and stakeholders on climate change, including the private sector. In doing so, each bank should remain accountable to its governing body;
- g) Complementarities between activities foreseen for the CIF and activities of the GEF and the UN, especially at the country level, should be identified to maximize synergies and avoid overlap.

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.

Objectives of the Strategic Climate Fund

16. The Strategic Climate Fund (SCF) will aim to:
- (a) provide incentives for scaled-up action and transformational change (both mitigation and adaptation) and for solutions to the climate change 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 future 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) 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 funds addressing climate change, such as the Forest Carbon Partnership Fund;
 - (f) 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
 - (g) maximize co-benefits in other areas of sustainable development, particularly in relation to sustainable management of natural resources and ecosystem services.

17. The SCF will make available a range of 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.

SCF Programs

18. It is proposed that within the framework of the SCF, targeted programs with dedicated funding will 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.

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

20. Work is also on-going on a proposal for a program to support investments for energy efficiency, renewable energy and access to modern sustainable energy in low-income countries. Other areas for which programs have been suggested include sustainable forest management and carbon capture and storage.

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

Contributions

22. A donor may choose to 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 in consultation with the Administrative Unit. A donor will designate to which funds or programs its resources will be contributed in the trust fund administration agreement to be entered into with the Trustee.

Governance of the SCF

Trust Fund Committee

23. A Trust Fund Committee will be established to oversee the operations and activities of the SCF. The Trust Fund Committee will consist of:

[(a) [six] representatives from donor countries to the SCF identified through a consultation among such donors, and [six] representatives from eligible recipient countries identified through a consultation among interested recipient countries; provided; however, (i) if there are less than [six] donor countries contributing to the SCF during the first year of the SCF operations, potential donor countries, identified through a consultation among the donor countries, may serve as representatives from donor countries, and (ii) if there are less than six donor countries contributing to the SCF in the subsequent years, the number of donor country representatives and recipient country representatives, respectively, shall be reduced to equal the number of actual donors contributing to the SFC. Representatives will serve for two year terms, except that they will serve for one year term for the first year of the SCF operations. Representatives may be reappointed;]²

[(b) [ten] representatives from donor countries to the SCF identified through a consultation among such donors, and [ten] representatives from eligible recipient countries identified through a consultation among interested recipient countries; provided; however, (i) if there are less than [ten] donor countries contributing to the SCF during the first year of the SCF operations, potential donor countries, identified through a consultation among the donor countries, may serve as representatives from donor countries, and (ii) if there are less than ten donor countries contributing to the SCF in the subsequent years, the number of donor country representatives and recipient country representatives, respectively, shall be reduced to equal the number of actual donors contributing to the SFC. Representatives will serve for two year terms, except that they will serve for one year term for the first year of the SCF operations. Representatives may be reappointed;]³

² This structure of 12 representatives is parallel to the Trust Fund Committee structure proposed for the Clean Technology Fund.

³ Recognizing the more strategic functions of the Trust Fund Committee and the delegation of decision making with respect to financing to the Sub-Committee level, it may be appropriate to have a larger number of members on the Trust Fund Committee for the Strategic Climate Fund.

- (c) a senior representative of the World Bank, recognizing the role of the World Bank as the overall coordinator of the CIF partnership;
- (d) a representative of the MDB partners to be identified by the MDB Committee and chosen on the basis of rotation among the MDBs .

24. Members of the MDB Committee and the Trustee may attend the Trust Fund Committee as observers. Any additional member of any Sub-Committee may be invited to attend the Trust Fund Committee as an observer.

25. 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. Civil society will also be invited to identify a representative to observe the Trust Fund Committee.

Chair of the Trust Fund Committee

26. The Trust Fund Committee will have two co-chairs. One co-chair will be elected from among the country members of the Trust Fund Committee for the duration of the meeting, alternating from one meeting to another between recipient and donor representatives. The other co-chair will be the World Bank Vice President for the Sustainable Development Network.

Decision making

27. Decision-making will be by consensus. 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. In fact, there may well be situations in which, while not agreeing on a decision reached by consensus, the dissenting decision-maker(s) does not wish to block a decision but wants to attach a statement(s) or note(s) to the decision reached by consensus to the effect that it does not support the decision. Hence a participant, while not entirely satisfied with a decision reached by consensus may still decide not to impede such consensus by remaining silent or registering its lack of support. If consensus is not possible, then a proposed decision will be postponed or withdrawn.

Functions of the Trust Fund Committee

28. The Trust Fund Committee will be responsible for:
- a) approving establishment of programs under the SCF;
 - b) establishing a Sub-Committee for each program established under the SCF and designating who may participate in the Sub-Committee;
 - b) approving trust fund financing for administrative budgets;
 - c) providing guidance on the convening of the Partnership Forum;

- d) ensuring monitoring and periodic independent evaluation of performance and financial accountability of MDBs;
- e) approving annual reports of the fund;
- f) ensuring that lessons learned are transmitted to the UNFCCC and other relevant bodies;
- g) reviewing reports from the Trustee on the financial status of the fund; and
- h) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund.

29. The Trust Fund Committee will meet at such frequency as it may decide, but not less than once a year.

Sub-Committee

30. The Trust Fund Committee will establish a Sub-Committee for each of the programs under the SCF. The Sub-Committee shall include at least two members of the Trust Fund Committee, one member from a donor country and one member from a recipient country. In addition to the designated members of the Trust Fund Committee, members of the Sub-Committee will include, as additional members, such other persons designated by the Trust Fund Committee for this purpose.

31. The functions of the sub-committee will include:

- (a) approving programming priorities, operational criteria and financing modalities for the SFC program;
- (b) approving SFC program financing for programs and projects;
- (c) approving reports to the Trust Fund Committee on the operations of the program;
- (d) exercising such other functions as they may deem appropriate to fulfill the purposes of the SFC program.

32. The Sub-Committee will meet at such frequency as it may decide, but not less than once a year concurrently with the Trust Fund Committee. Further, the Sub-Committee may review and approve trust fund financing for programs and projects without meeting, but through such other means and procedures appropriate for project or program review.

33. Each Sub-Committee will elect its own Co-Chairs.

34. Except as otherwise specifically provided, the procedures applied to the Trust Fund Committee will apply to the Sub-Committee.

Commitment of Trust Fund Resources

35. The Sub-Committee may approve allocation of SCF program resources for programs, projects and such other activities, subject to the amount of resources available

in the trust fund for the SCF program. The Trustee will make commitments to MDBs for transfer of funds in accordance with approval of the Sub-Committee, but only to the extent that such resources are available in the trust fund for the relevant program.

Monitoring and Evaluation

36. There will be annual reporting on the SCF's programs to the 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.

Partnership Forum

37. A Partnership Forum, a broad-based meeting of stakeholders, including donor and eligible recipient countries, MDBs, UN and UN agencies, GEF, UNFCCC, the Adaptation Fund, bilateral development agencies, NGOs, private sector entities, and scientific and technical experts will be convened annually to discuss the strategic directions and results and impacts of the CIF. The Partnership Forum will be co-chaired by the World Bank Vice President for the Sustainable Development Network and a country representative elected by countries participating in the Partnership Forum. Biannually, at the Partnership Forum, donor and recipient countries will agree on their representation on the Trust Fund Committee.

Supporting units established under the CIF

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

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

MDB Committee

39. 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 Trust Fund Committee, review a provisional agenda and documentation prepared by the Administrative Unit;
- (c) review recommendations proposed by the Administrative Unit on program criteria and priorities and the activity cycle for approval by the appropriate Sub-Committee;

- (d) monitor progress in implementing programs and report to the Trust Fund Committee on compliance with approved policies on the use of trust fund resources;
- (e) review a draft annual consolidated report on the SCF 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, administrative costs incurred, and other pertinent information;
- (f) serve as a forum to ensure effective operational coordination, exchange of information and experience;
- (g) liaise with bilateral development agencies for purposes of promoting co-financing of activities;
- (h) 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
- (i) perform any other functions assigned to it by the Trust Fund Committee.

Administrative Unit

40. 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 sub-committees. With respect to the SCF, the Administrative Unit will:

- (a) prepare all documentation required for review by the Trust Fund Committee and Sub-Committees which will first be reviewed by the MDB Committee;
- (b) make recommendations, in consultation with the MDB Committee, on program criteria and priorities and the activity cycle for approval by the Sub-Committees;
- (c) conduct background research and analyses as requested by the Trust Fund Committee and Sub-Committees;
- (d) 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, administrative costs incurred, and other pertinent information;
- (e) manage a comprehensive database of the trust fund activities, knowledge management system, result measurements system and learning program;
- (f) service the meetings of the Trust Fund Committee and Sub-Committees;
- (g) manage partnerships and external relations, including convening meetings of the MDB Committee and the Partnership Forum;
- (h) collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities; and
- (i) perform any other functions assigned to it by the Trust Fund Committees.

Trustee

41. The IBRD will serve as Trustee for the SCF. The Trustee will act as financial intermediary with respect to the SCF proceeds administered by other MDBs and, in that capacity, will have no responsibility to the SCF contributors for the use of such proceeds over and above those responsibilities contained in the trust fund administration agreement, agreements with MDBs, and relevant World Bank rules and regulations. Each MDB will be responsible for the use of funds transferred by the Trustee 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.

Contributions

42. A contributor [or group of contributors] will be required to make a minimum contribution of [X] to the fund or such other amount that may be determined by the Trust Fund Committee.

43. Donors may make contributions in cash, or, with the agreement of the Trustee, by the delivery of promissory notes or similar obligations to the Trustee. Further, donors may make contributions in one lump sum or in installments on the terms agreed with the Trustee. In the event that a part of the donor's contribution is subject to legislative approval, the donor may enter into a trust fund administration agreement with the Trustee for the total amount of the contribution, but qualify the portion of the contribution, which is subject to legislative approval; provided, however, that the unqualified portion of the contribution equals to or exceeds the minimum contribution.

Reflows

44. Donors will have beneficiary interests in any reflow of funds returned to the SCF, together with other funds held in the SCF, on a pro-rata basis calculated for each Program established under the SCF. Unless a donor specifies in the trust fund administration agreement with the Trustee that it chooses to receive its pro-rata share of the reflows (and any remaining balance of its contribution), the donor will be deemed to have waived their rights to receive its pro rata share and agreed that the Trustee will transfer to IDA any reflows received by the Trustee (and any other remaining balance of the SCF) [at termination of the SCF].

45. If a donor chooses to receive its pro rata share, such share will be settled at the time of termination of the SCF or withdrawal by the donor of its contribution to the SCF, as applicable. In the case of termination of the SCF, the Trustee will calculate and return the donor's pro-rata share of any remaining balance of its contribution held for the relevant Program, including any reflow of funds received, at the time of termination. In the case of withdrawal by the donor of its contribution to the SCF prior to termination of the SCF, the Trustee will return to the donor (i) its pro rata share of the outstanding unallocated balance held for the relevant Program, including any reflow of funds

received, at the time of withdrawal of the contribution, and (ii) its pro rata share of any unallocated reflow of funds received by the Trustee after the date of withdrawal, to the extent that such reflow of funds is received from the financing made prior to the date of the withdrawal.

Administrative fees

46. 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 but should be guided by the principles of cost consciousness, reasonableness, and transparency. The costs of the Partnership Forum will be included in the administrative budget of the Administrative Unit and will be shared between the CIF funds.

Sunset Clause

47. Recognizing that the establishment of the trust fund is not to prejudice the ongoing deliberations regarding a future climate change agreement, including an associated financial architecture, it is expected that the SCF will take necessary steps to move towards concluding its operations once a new financial architecture is in place. Therefore, the Trustee will not enter into any new agreement with donors for contributions to the trust fund once the agreement is effective. The Trust Fund Committee will decide the date on which it will cease making allocations from the outstanding balance of the Trust Fund.

Legal Document and Amendments

48. The terms of the governance arrangements of the SCF will be set out in the governance framework document. The Trust Fund Committee may recommend amendments to any terms of the governance framework document which will become effective with the consent of all donor countries to the SCF, all recipient countries that have been allocated funding from the SCF, and the Trustee.

49. In addition, the Trustee will enter into a trust fund administration agreement with each donor, which sets out the terms and conditions of administration of donors contributions.

Annex A

PILOT PROGRAM FOR CLIMATE RESILIENCE

Background to the Proposal to Establish a Pilot Program for Climate Resilience

1. There is increasing consensus that managing the effects of climate change is central to poverty reduction, economic growth and sustainable development. 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.

2. The need for the integration of climate risks into national development planning has been emphasised in many venues, reviews and declarations:

- (a) The Delhi Ministerial Declaration on Climate Change and Development in 2002 states “National sustainable development strategies should integrate more fully climate change objectives in key areas such as water, energy, health, agriculture and biodiversity, and build on the outcomes of the World Summit on Sustainable Development; ... Adaptation to the adverse effects of climate change is of high priority for all countries. Developing countries are particularly vulnerable, especially the least developed countries and small island developing States.”
- (b) The Bali Action Plan in 2007 calls for “International cooperation to support ... integration of adaptation actions into sectoral and national planning, specific projects and programmes, means to incentivize the implementation of adaptation actions, and other ways to enable climate-resilient development and reduce vulnerability of all Parties, ...”
- (c) Working Group II of the IPCC Fourth Assessment Report (Chpt 17) recognised the importance of “mainstreaming” climate change into national planning but pointed out five constraints to achieving this including “compartmentalisation within governments; segmentation and other barriers within development-cooperation agencies; and trade-offs between climate and development objectives”.

3. Development agencies, donor countries and NGOs have expressed similar concerns that development aid must be climate resilient and more strategic in its focus:

- (a) DFID is developing and piloting a climate risk management methodology aimed at reducing climate-related vulnerability by systematically “assessing and addressing adaptation” in development activities that will feed into country assistance planning by assessing the implications of adaptation options for resource allocation by DFID country programmes.
- (b) The OECD has noted that ODA “may not be a leading direct source of finance for investment in climate friendly technologies. Rather, it might concentrate on assisting

developing countries to develop the necessary policy frameworks and the human, institutional and technological capacities necessary to take full advantage of climate-friendly development options.”

- (c) The recent IDA replenishment provided analyses that show that IDA eligible countries and small island states are the most vulnerable to climate change and concluded that IDA investments are at risk unless steps are taken to increase the resilience of IDA countries to climate change. A essential step is “Integrating climate issues into other aspects of development work (by mainstreaming them into strategies for growth and poverty reduction) and defining a common agenda for action ..., together with institutional strengthening and financing—all within a coherent framework.”

4. Some aid agencies are taking steps to climate proof their portfolios, but the impetus in most cases is coming from the aid programs rather than from the developing countries themselves.

5. Developing countries need technical and financial support to routinely consider climate information, impacts, risks and cost effective adaptation options in their normal planning and budgeting processes. 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. Development pathways need to be designed from the beginning to be robust to climate risks. 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.

6. There are already several streams of funding for adaptation, but none is suited for promoting transformational change in national development planning at the scale sought in this Pilot Program.

- (a) Most Least Developed Countries have completed, or near completed, National Adaptation Programs of Action (NAPAs). Preparation and implementation of the NAPAs is supported through the multi-donor Least Developed Countries Fund (LDCF) managed 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. Countries are now moving to the implementation phase of the NAPAs with support to carry out the highest priority projects. Grants have ranged between \$1.5M to \$3.5M. 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.
- (b) The Special Climate Change Fund (SCCF) was established to complement existing GEF funds and is accessible by all non-Annex 1 countries. It finances (a) adaptation; (b) transfer of technologies; (c) energy, transport, industry,

agriculture, forestry and waste management; and (d) activities to assist developing countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products in diversifying their economies. The SCCF has funded 9 projects ranging in size from about \$1M to \$7M. There is a high demand for such support and the SCCF has a continuing role in project based adaptation funding.

7. The Adaptation Fund was established under the Kyoto Protocol and is supported by a 2% tax on most CDM transactions. The Board and the management arrangements for the Adaptation Fund (AF) were agreed at the Bali CoP in late 2007. The Board has majority representation from developing countries, reflecting that the core source of funding arises from CDM activities within those countries. 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 and resources for the AF are likely to build slowly as CDM activity builds though the First Commitment Period and CERs are converted to cash. The value of the CERs currently held is a few tens of millions of dollars and the initial focus of the Board of the AF is likely to be establishing a working framework, identifying a set of projects that will help establish priorities and developing links with other adaptation relevant actors. Initial funding is unlikely before 2010. Estimates of the size of the AF vary according to estimates of the scale of the CDM and prices for CERs, but are expected to be several hundred millions of dollars in the first commitment period and possibly significantly larger in the post 2012 regime.

8. It is generally agreed that we need to make progress on building climate resilience quickly. There is a pressing need to deal better with current climate variability and there is clear evidence that climate is changing at least at the rates projected by the IPCC. The proposed PPCR has been designed to explore adaptation actions at a scale not yet feasible under any of the existing funds. Its purpose is to provide lessons that might be taken up by the development community and under the UNFCCC and any future climate agreement, in particular by the Adaptation Fund.

9. The management bodies of the Strategic Climate Fund and the PPCR (PPCR-SC) will have strong developing country participation and 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-SC, involvement in an expert group and through PPCR reporting to the AF Board on programmes, achievements and lessons learned.

10. 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, financial resources and with sufficient resources to move quickly from planning to action. The PPCR will provide the opportunity to pilot this.

Principles

11. The principles set out in paragraph 14 of the Proposal for a Strategic Climate Fund (SCF) will also apply to the Pilot Program for Climate Resilience with particular emphasis on the following:

- (a) The UN is the appropriate body for broad policy setting on climate change and the multilateral development banks should not pre-empt the results of negotiations on a post-2012 climate change agreement. Actions to address climate change should be guided by the principles of the UNFCCC;
- (b) The GEF and the Adaptation Fund are the delivery mechanisms for support provided under the UNFCCC but that under Article 11.5 resources may also be provided through “bilateral, regional and other multilateral channels”.

12. The PPCR will pilot and demonstrate ways to integrate climate risk and resilience into core development planning. The pilots will be country led, will build on National Adaptation Programs of Action and other relevant country studies and strategies and will be strategically aligned with the Adaptation Fund to provide pilot finance in the short term so as to learn lessons that will be useful in designing scaled up adaptation finance, including in the context of international climate negotiations.

Objectives of the PPCR

13. 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.

Involvement of Recipient Countries in the PPCR

14. It is proposed that recipient countries be involved in the PPCR at the following four levels:

- (a) At the country level, the recipient-country government would be responsible for exercising leadership in developing and implementing its national

strategies and work programs to increase the climate resilience of their development;

- (b) Through representation on the PPCR-SC for the Program that will be responsible for approving program criteria and financing from the fund;
- (c) Recipient countries would participate in the final approval of programs at the MDB Boards;
- (d) At a Partnership Forum, a broad-based meeting of stakeholders interested in the CIF, including donor and recipient countries participating in the funds, UN and other agencies, and NGOs. The Forum would be convened to discuss the strategic directions and results and impacts of the PPCR.

Types of investments

15. 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. Two types of activities will be supported over the next three to five years in recipient countries.

- (a) The first will provide support for 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. 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, 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 about 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.
- (b) The second type of support will provide additional financial resources to help fund investments identified in the climate resilient development plans. There will be an emphasis on budget support approaches, where possible, and blending with national financing and existing international support mechanisms. This support should begin within about a year of the recipient country being identified and the level of investment will vary according to country circumstances.

16. 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. Additional costs directly associated with technical assistance and institutional adjustment should normally be through grants. Significant resources will be

available through the PPCR in the form of grants or highly concessional lending that can be blended with existing sources of 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.

17. Individual grants/concessional loans under the work program will be processed through the MDBs selected by the country. Each operation would follow the investment policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards.

The Pilot Program for Climate Resilience Sub-Committee

18. A Pilot Program for Climate Resilience Sub-Committee (PPCR-SC) will be established to oversee the operations and activities of the Pilot Program.

19. The PPCR-SC will consist of:

- (a) two members appointed by the Trust Fund Committee of the SCF, one member from a donor country and one member from a recipient country;
- (b) up to six representatives from donor countries to the PPCR identified through a consultation among such donors;
- (c) [a matching number of representatives from recipient countries approved as pilots under the program. Prior to the approval of the first recipient countries to receive funding from the PPCR, a matching number of developing countries will be nominated to serve on the Sub-Committee, either by the Adaptation Fund Board, the Trust Fund Committee of the SCF, or by recipient countries according to UN regional groupings. These representatives will cease to be members of the PPCR-SC following the selection of recipient countries for the Pilot Program;] [a representative of each recipient country approved as a pilot under the PPCR. Prior to the approval of the first recipient countries to receive funding from the PPCR, the Trust Fund Committee of the SCF will nominate from its members representatives from three recipient countries to serve on the Sub-Committee. These representatives will cease to be members of the PPCR-SC following the approval of the third recipient country to receive funding from the PPCR;]
- (d) the developing country Chair or co-Chair of the Board of the Adaptation Fund (or his/her nominee).

20. Members of the MDB and the Trustee may attend the PPCR-SC as observers.

21. To ensure good linkages with key partners so as to promote the efficient use of resources and complementarity with other sources of financing, the PPCR-SC will invite as observers representatives of other organizations with a mandate to promote investments in climate resilience to address climate change, such as the Global Environment Facility, UNDP, UNEP and the UNFCCC.

22. A country being considered as a candidate to receive financial support from the Pilot Program will be invited to attend the PPCR-SC as observers during deliberations on the country's proposal.

23. The PPCR-SC will elect two co-Chairs from among its members for the duration of a meeting. One co-Chair will be a representative of a recipient country and the other co-Chair will be a representative of a donor country.

24. Decision-making will be by consensus. 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. In fact, there may well be situations in which, while not agreeing on a decision reached by consensus, the dissenting decision-maker(s) does not wish to block a decision but wants to attach a statement(s) or note(s) to the decision reached by consensus to the effect that it does not support the decision. Hence a participant, while not entirely satisfied with a decision reached by consensus may still decide not to impede such consensus by remaining silent or registering its lack of support. If consensus is not possible, then a proposed decision would be postponed or withdrawn.

Functions of the PPCR-SC

25. The PPCR-SC will be responsible for:

- (a) approving programming priorities, operational criteria and financing modalities for the PPCR;
- (b) approving PPCR financing for programs;
- (c) ensuring that lessons learned are transmitted through the TFC to the Board of the Adaptation Fund, the UNFCCC and other stakeholders; and
- (d) exercising such other functions as they may deem appropriate to fulfill the purposes of the PPCR.

Frequency of meetings

26. The PPCR-SC will meet at such frequency as it may decide, but not less than once a year concurrently with the Trust Fund Committee. The PPCR-SC may review and approve trust fund financing for programs and projects without meeting, but through such other means and procedures appropriate for program or project review.

Country Eligibility

27. Countries eligible for the Pilot Program are those eligible for MDB concessional funds⁴ or Small Island Developing States. Final selection of pilot countries will be the decision of the PPCR-SC.

Country Selection Process

28. An Expert Group will be established by PPCR-SC to make recommendations on country selection based on transparent vulnerability criteria; country preparedness to move to a strategic approach to integrating climate resilience in development; and

⁴ List the acronyms for concessional funds

country distribution across regions and types of hazards (as appropriate to a pilot program).

29. The Expert Group should be up to eight in number and include a range of expertise covering scientific, economic and social aspects of climate change, governance and institutional and development planning. The Expert Group should include representatives of both developed and developing countries. The Chair and co-Chair of the AF, or their nominees, will be invited to participate on the nomination and selection process of the Expert Group.

Duration of PPCR

30. The PPCR will provide finance in the short-term. Recipient countries will be identified and the first phase of funding to prepare climate resilient development plans will occur primarily during 2008-2009. Commitments for activities under the second phase of funding will not be made after the future climate change agreement is effective.

Monitoring and Evaluation

31. The PPCR will report regularly to the Trust Fund Committee, and an evaluation of activities will be carried out after three years of operations. Results achieved through the PPCR should be published and publicly available. Full reporting criteria will be agreed by the Trust Fund Committee of the SCF.

Evaluation of the learning from the PPCR

32. Many of the main learning objectives should be achieved within the first one to two years of operation of the Pilot Program. The effectiveness and lessons learned from the pilots will be independently evaluated before December 31, 2012. The Board of the Adaptation Fund will be invited to play a leading role in the evaluation.

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), will 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, or Sub-Committees as applicable, 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.

4. In the event that a donor has designated to contribute to any funds other than the CIF funds through SCF (with the agreement of the Trustee in consultation with the Administrative Unit), the Trustee will make necessary arrangements, on behalf of the donor, to effect transfers of contribution funds to non-CIF funds. Such arrangements will include that the administrator of the non-CIF fund, which has received the donor's contribution, shall be directly accountable to the donor for the contribution funds. Upon transfer of contribution funds, the Trustee will have no responsibility for the proceeds of such funding, including any reporting thereon.

Financial Reporting

5. 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

6. As Trustee, IBRD will execute trust fund administration 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.