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PROPOSAL FOR A STRATEGIC CLIMATE FUND

The Challenge

1. A consensus is growing that moderating and managing climate change is central to every aspect of poverty reduction, economic growth and development, and that climate change disproportionately affects the urban and rural poor worldwide. 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 Fourth Assessment Report of the Intergovernmental Panel on Climate Change found that warming of the climate change 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. Under the first principle of the United Nations Framework on Climate Change (UNFCCC), it is recognized that “Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.”¹
3. 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, collapse of ecosystems, and further spread of invasive species and water-related diseases, particularly in tropical areas. The poorest countries and communities are already feeling the impact of climate change and will suffer the 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.
4. Early mitigation of GHG emissions causing changes in climate will significantly decrease future adaptation costs, and especially the burden on the poor. However, 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.
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.

¹ United Nations Framework Convention on Climate Change, Article 3(1).

Background

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. In addition, the Adaptation Fund has been 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 Adaptation Fund is to be financed with a share of proceeds from Clean Development Mechanism (CDM) project activities and is able to receive funds from other sources. The share of proceeds amounts to 2% of certified emission reductions.

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 of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.”

11. Under the UNFCCC, deliberations on climate change are being informed and shaped by the Bali Action Plan that was adopted by the thirteenth session of the UNFCCC Conference of the Parties. In the Bali Action Plan, Parties agreed 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, by addressing:

- “(a) A shared vision for long-term cooperative action, including a long-term global goal for emission reductions, to achieve the ultimate objective of the Convention, in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities, and taking into account social and economic conditions and other relevant factors;
- (b) Enhanced national/international action on mitigation of climate change, including, inter alia, consideration of:
- (i) Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives, by all developed country Parties, while ensuring the comparability of efforts among them, taking into account differences in their national circumstances;
 - (ii) Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner;
 - (iii) Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries;
 - (iv) Cooperative sectoral approaches and sector-specific actions, in order to enhance implementation of Article 4, paragraph 1(c), of the Convention;
 - (v) Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries;
 - (vi) Economic and social consequences of response measures;
 - (vii) Ways to strengthen the catalytic role of the Convention in encouraging multilateral bodies, the public and private sectors and civil society, building on synergies among

activities and processes, as a means to support mitigation in a coherent and integrated manner;

- (c) Enhanced action on adaptation, including, inter alia, consideration of:
 - (i) International cooperation to support urgent implementation of adaptation actions, including through vulnerability assessments, prioritization of actions, financial needs assessments, capacity-building and response strategies, 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, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, especially the least developed countries and small island developing States, and further taking into account the needs of countries in Africa affected by drought, desertification and floods;
 - (ii) Risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance;
 - (iii) Disaster reduction strategies and means to address loss and damage associated with climate change impacts in developing countries that are particularly vulnerable to the adverse effects of climate change;
 - (iv) Economic diversification to build resilience;
 - (v) Ways to strengthen the catalytic role of the Convention in encouraging multilateral bodies, the public and private sectors and civil society, building on synergies among activities and processes, as a means to support adaptation in a coherent and integrated manner;
- (d) Enhanced action on technology development and transfer to support action on mitigation and adaptation, including, inter alia, consideration of:
 - (i) Effective mechanisms and enhanced means for the removal of obstacles to, and provision of financial and other incentives for, scaling up of the development and transfer of technology to developing country Parties in order to promote access to affordable environmentally sound technologies;

- (ii) Ways to accelerate deployment, diffusion and transfer of affordable environmentally sound technologies;
 - (iii) Cooperation on research and development of current, new and innovative technology, including win-win solutions;
 - (iv) The effectiveness of mechanisms and tools for technology cooperation in specific sectors;
- (e) Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation, including, inter alia, consideration of:
- (i) Improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties;
 - (ii) Positive incentives for developing country Parties for the enhanced implementation of national mitigation strategies and adaptation action;
 - (iii) Innovative means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation;
 - (iv) Means to incentivize the implementation of adaptation actions on the basis of sustainable development policies;
 - (v) Mobilization of public- and private-sector funding and investment, including facilitation of climate-friendly investment choices;
 - (vi) Financial and technical support for capacity-building in the assessment of the costs of adaptation in developing countries, in particular the most vulnerable ones, to aid in determining their financial needs.”

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

12. 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, developed and developing countries and other development partners, is seeking to establish the strategic Climate Investment Funds (CIF)² to mobilize new and additional financing for activities and investments that demonstrate how financial and other incentives can be scaled-up to support adaptation and mitigation in a coherent and integrated manner. Recognizing that UNFCCC deliberations on the future of the climate change regime include discussions on a future financial architecture and funding strategy for climate change, the CIF will be an interim measure designed for the MDBs to assist in filling immediate financing gaps. The funds, therefore, will include specific sunset clauses linked to the agreement on the future of the climate change regime.

13. In developing proposals for the funds, the following principles have been taken into account:

- (a) The core mission of the MDBs is sustainable economic 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 the negative effects of climate change;
- (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 MDBs should mobilize new and additional financing for adaptation and mitigation programs to address climate change that are country-led and designed to support sustainable development and poverty reduction. Activities financed by the fund should be based on a country-led approach and should be integrated into country-owned development strategies, consistent with the Paris Declaration;

² It is proposed that the portfolio of funds/programs initially include, if donor support warrants:

- a. the Clean Technology Fund,
- b. the Strategic Climate Fund, including programs for Climate Resilience, Greening Energy Access, and Sustainable Forest Management;

Some interest has been expressed in providing financing to pilot Carbon Capture and Storage in developing countries. There needs to be further discussion as to whether this best fits under the CTF or the SCF.

- (d) Achieving sustainable outcomes will require sustaining the total wealth – produced, human, institutional and natural – on which development depends;
- (e) The UN is the appropriate body for broad policy setting on climate change, and the MDBs should not preempt the results of climate change negotiations. Actions to address climate change should be guided by the principles of the UNFCCC;
- (f) The MDBs, in collaboration with other development partners, should assist developing countries to build country-level knowledge, capacity and development project experience;
- (g) 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 MDB should remain accountable to its governing body;
- (h) Complementarities between activities foreseen for the CIF and activities of the GEF and the UN, especially at the country level, should be identified, and effective cooperation established, to maximize synergies and avoid overlap;
- (i) The funds should provide for transparency and openness in their governance and financing operations.

14. The need for mobilizing greater and more innovative financing for climate change actions is a critical lesson of the Clean Energy Investment Framework (CEIF)³. The CEIF has provided the basis for definition of a range of possible initiatives to be developed 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), to broader programs that help reduce poverty, and foster growth while enhancing climate resilience and mitigating greenhouse gases.

15. Consistent with the experience of the CEIF and the principle of enhancing action on ways to strengthen the catalytic role of the Convention in encouraging multilateral bodies to support adaptation and mitigation in a coherent and integrated way⁴, the World Bank Group, the African Development Bank, the Asian Development Bank, the

³ The 2005 Gleneagles G-8 Summit in July 2005 stimulated a concerted effort by the development community to broaden and accelerate support to developing countries relating to energy access and climate change through the Clean Energy Investment Framework (CEIF).

⁴ Decisions adopted by the Conference of the Parties at its thirteenth session, Decision 1/CP.13, paragraphs 1(b)(vii) and 2(b)(v).

European Bank for Reconstruction and Development, and the Inter-American Development Bank (hereinafter referred to as the MDBs), are actively pursuing ways to increase the availability of innovative financing through existing and new instruments and to accelerate the access of developing countries to carbon finance, building on comparative advantages of the various institutions and their strong development policy dialogue with client countries.

Objectives of the Strategic Climate Fund

16. The Strategic Climate Fund (SCF) will aim to:
- (a) promote international cooperation on climate change and support progress towards the future of the climate change regime;
 - (b) provide experience and lessons in responding to the challenge of climate change through learning-by-doing;
 - (c) promote and channel new and additional 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;
 - (d) utilize the skills and capabilities of the MDBs 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) provide incentives for scaled-up action and transformational action (both mitigation and adaptation) and for solutions to the climate change challenge and poverty reduction in developing countries, consistent with poverty reduction and sustainable development strategies that are robust to climate change;
 - (f) provide incentives to maintain, restore and enhance carbon-rich natural ecosystems to prevent these carbon sinks from becoming sources of increased emissions, and to enhance all the services they provide, including climate resilience or adaptive capacity, and thereby support sustainable development;
 - (g) 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
 - (h) maximize co-benefits of sustainable development, particularly in relation to the conservation of biodiversity, natural resources ecosystem services and ecological processes..

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 while at the same time promoting sustainable development and poverty reduction.

SCF Programs

18. It is proposed that within the framework of the SCF, targeted programs with dedicated funding can be established to provide financing to pilot new development approaches or scale-up activities aimed at a specific climate change challenge or sectoral response. In view of the sunset of the SCF as provided below, such programs should be established as soon as possible and before an agreement on the future of the climate change regime. 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 programs to support investments in low income countries for energy efficiency, renewable energy and access to modern sustainable energy and for sustainable forest management. A program for sustainable forest management should only be considered if it provides value added, in particular with regard to the Forest Carbon Partnership Facility. Another area for which a program has been suggested is carbon capture and storage.⁵ The scope and objectives of these programs will be approved by the Trust Fund Committee.

21. Programs in addition to those listed in paragraph 20 may be considered in accordance with the following criteria:

- (a) Multiple donor interest in establishing a program;
- (b) Broad applicability of lessons to be learned;
- (c) Sufficient resources to finance activities at scale;
- (d) Complementary to any other multilateral financial mechanism or initiative; and

⁵ There needs to be further discussion as to whether carbon capture and storage best fits under the CTF or the SCF.

- (e) Link between climate change and development.

22. The scope and objectives for such new programs will be developed in consultation with key stakeholders, approved by the Trust Fund Committee of the SCF and submitted to the Executive Directors of the World Bank for information.

Contributions

23. The SCF will provide a means to transfer funds to other trust funds for those donors that require such an account. A donor may choose to contribute to the Strategic Climate Fund and/or, through the Strategic Climate Fund, to the Clean Technology Fund or to other funds agreed with the Trustee in consultation with the Administrative Unit. In the trust fund administration agreement to be entered into with the Trustee, a donor will designate to which SCF programs or other funds its resources will be contributed.

Governance of the SCF

Trust Fund Committee

24. 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 and potential 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;]⁶

- [(a) [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 and potential donor countries, may serve as

⁶ This structure of 12 representatives is parallel to the Trust Fund Committee structure proposed for the Clean Technology Fund.

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;]⁷

- (b) a senior representative of the World Bank, recognizing the role of the World Bank as the overall coordinator of the CIF partnership;⁸
- (c) a representative of the MDB partners to be identified by the MDB Committee and chosen on the basis of rotation among the MDBs .⁹

25. 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.

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, including 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

27. 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

28. Decision-making will be by consensus of the “voting” members of the Trust Fund Committee.¹⁰ 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

⁷ 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.

⁸ The role of representatives of the World Bank and the MDB partners will be similar to that of “non-voting” members of other Boards.

⁹ Same as above.

¹⁰ The role of representatives of the World Bank and the MDB partners will be similar to that of “non-voting” members of other Boards. .

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 member, 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

29. The Trust Fund Committee will be responsible for:
- (a) approving establishment of programs under the SCF and the scope and objectives governing the use of these funds based on a consultative process and an analysis to determine the utility of new fund programs;
 - (b) ensuring that the strategic orientation of the SCF is guided by the principles of the UNFCCC;
 - (c) establishing a Sub-Committee for each program established under the SCF and designating who may participate in the Sub-Committee;
 - (d) approving trust fund financing for administrative budgets;
 - (e) providing guidance on the convening of the Partnership Forum;
 - (f) ensuring monitoring and periodic independent evaluation of performance and financial accountability of MDBs;
 - (g) approving annual reports of the fund;
 - (h) ensuring that lessons learned are transmitted to the UNFCCC and other relevant bodies;
 - (i) reviewing reports from the Trustee on the financial status of the fund; and
 - (j) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund.
30. The Trust Fund Committee will meet at such frequency as it may decide, but not less than once a year.

Sub-Committee

31. [The Trust Fund Committee will establish a Sub-Committee for each of the programs under the SCF, taking into account the donors and eligible recipients for each program. The Sub-Committee will 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.]

[The Trust Fund Committee will establish a Sub-Committee for each of the programs under the SCF. The Sub-Committee will include:

- (a) Up to six representatives from donor countries to the program identified through a consultation among such donors, at least one of which should be a member of the SCF Trust Fund Committee;
 - (b) A matching number of representatives from recipient countries to the program, at least one of which should be a member of the SCF Trust Fund Committee;
 - (c) 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.]
32. The functions of the sub-committee will include:
- (a) approving programming priorities, operational criteria and financing modalities for the SCF program;
 - (b) approving SCF program financing for programs and projects;
 - (c) approving reports to the Trust Fund Committee on the operations of the program;
 - (d) ensure complementary between activities foreseen for the SCF Program and activities of other development partners active in the field of climate change adaptation, including the GEF and the UN, and ensure effective cooperation between the Program and the GEF and UN country activities to maximize synergies and avoid overlap
 - (e) exercising such other SCF functions as they may deem appropriate to fulfil the purposes of the SFC program.
33. 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.
34. Each Sub-Committee will elect its own Co-Chairs.
35. Except as otherwise specifically provided, the procedures applied to the Trust Fund Committee will apply to the Sub-Committee.

Commitment of Trust Fund Resources

36. 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 and within the allocation for the program agreed by the Trust Fund Committee. 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

37. Monitoring and evaluation will be critical for the Trust Fund. There will be annual reporting on the SCF Programs by the MDBs to the Trust Fund Committee, and an independent evaluation of the operations of the Trust Fund and its activities will be carried out jointly after three years of operations by the independent evaluation departments of the MDBs. Results achieved through the fund should be published and publicly available. Full reporting criteria will be agreed by the Trust Fund Committee.

Partnership Forum

38. 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 provide a forum for dialogue on the strategic directions, 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. At the Partnership Forum, donor and recipient countries will agree on their representation on the Trust Fund Committee.

39. The implementation of the CTF may benefit from advisory inputs from qualified individuals invited from a wide cross-section of expertise. The Partnership Forum will provide an opportunity for independent scientific, technical and other advice on major issues of implementation in integrating climate change and development. UNEP will be invited to collaborate with the Administrative Unit in proposing to the Trust Fund Committees ways to ensure scientific and expert input, based on personal qualifications and experience and a balance of developed and developing country expertise, into the Partnership Forum.

40. The Partnership Forum will be a meeting for dialogue and consultation and will not lead to written outcomes, such as agreed texts or declarations, which could be used as a basis for discussions in the UNFCCC.

Supporting units established under the CIF

41. Bearing in mind the objectives of: (a) minimizing transaction costs, and (b) following to the extent possible the MDB processes rather than establishing separate institutional structures, it is proposed that the following units will provide services to the funds and programs:

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

MDB Committee

42. To facilitate collaboration, coordination and information exchange, a MDB Committee comprising representatives of the MDBs will be established. The MDB Committee will meet with such other frequency as deemed necessary by the committee but not less than once a year. The MDB Committee will:

- (a) identify specific areas of MDB cooperation to harmonize their climate change programs and actions, linking their initiatives with SCF programs and projects;
- (b) prior to each meeting of the Trust Fund Committee or a Sub-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 Trust Fund Committee;
- (d) monitor progress in implementing programs and report to the Trust Fund Committee on compliance with TFC approved criteria and priorities 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 among the MDBs;
- (g) liaise with other development partners, including bilateral development agencies/banks, for purposes of promoting co-financing of activities through an annual consultation between the MDBs and development partners, including bilateral development banks;
- (h) support 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;

- (i) perform any other functions assigned to it by the Trust Fund Committee or Sub-Committees.

Administrative Unit

43. 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

44. 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

45. 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.¹¹

46. 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 instalments 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

47. 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. Where a donor has made a contribution through the SCF to the CTF or other funds which may be established under CIF (Other CIF Funds), the donor's pro-rata share in the Other CIF Funds will be returned to the SCF in accordance with the terms of the relevant trust fund.

48. Donors' pro-rata shares will be calculated based on donors' contributions to each Program established under the SCF or Other CIF Funds.

49. Upon termination of the SCF, the Trustee, on behalf of donors, will endeavor to transfer donors' pro-rata shares to another fund which has a similar objective as the SCF as determined by the Trust Fund Committee, unless a donor [otherwise agrees with the Trustee] [specifies in the trust fund administration agreement with the Trustee that it chooses to have its pro-rate share returned.]

50. In the event that a donor decides to withdraw its contribution to the SCF prior to the termination of the SCF, the Trustee will return to the donor (a) its pro-rata share of the outstanding unallocated balance, including any reflow of funds received, at the time of the donor's withdrawal, and (b) its pro-rata share of any 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.

¹¹ Donors have indicated that contributions to the CTF should meet the DAC criteria for ODA eligibility. The OECD DAC will need to confirm whether contributions to the SCF meet the DAC criteria.

Administrative fees

51. The Trustee, the Administrative Unit, and the MDBs will perform specific administrative services and project related activities. Consistent with MDB policies on management of trust funds, 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 value for money, 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

52. Recognizing that the establishment of the trust fund is not to prejudice the ongoing UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture, the SCF will take necessary steps to conclude its operations once a new financial architecture is effective. Specifically, 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

53. 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.

54. 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.

55. The Trustee will enter into a Financial Procedures Agreement with each MDB, which will set out the terms and conditions of commitment and transfer for funds by the Trustee to the MDB as well as financial reporting from the MDB to the Trustee.

Annex A

PILOT PROGRAM FOR CLIMATE RESILIENCE

Background

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) Bilateral development agencies are developing climate risk management methodologies aimed at reducing climate-related vulnerability in development activities that will feed into country assistance planning;

- (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. Developing countries need technical and financial support to routinely consider climate information, impacts, risks and cost effective adaptation options in their normal planning, budgeting and regulatory 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. Policies relating to climate resilience can improve the local environment, increase resilience to natural disasters, support natural ecosystems to enhance the adaptive services they provide, and facilitate the dissemination of innovative technologies and autonomous adaptation by individuals and the private sector.

5. There are already several sources of funding for adaptation, but none integrates financing for climate resilience into policy-based lending and sector-wide approaches as is 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 and through other bilateral and multilateral donors. 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.¹² Grants have ranged between \$1.5M to \$3.5M. There is a need to build upon and complement the NAPAs with comprehensive and

¹² Ian to provide reference

strategic incorporation of climate resilience into regular development planning and budgeting.

- (b) The Special Climate Change Fund (SCCF) 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 \$13.5M. There is a high demand for such support, and the SCCF has a continuing role in project based adaptation funding.
- (c) Several multilateral development agencies and bilateral donors are supporting countries in mainstreaming adaptation into their development plan, building climate resilience and identifying new and innovative funding sources to address climate change issues.

6. The Adaptation Fund was established under the Kyoto Protocol and is to be financed with a share of proceeds from Clean Development Mechanism project activities and is able to receive funds from other sources. The share of proceeds amounts to 2% of certified emission reductions (CERs). 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 largest financing vehicle for adaptation under the UNFCCC. 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. 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 future of the climate change regime.

7. The Hyogo Framework for Action on disaster reduction calls upon countries to “Promote the integration of risk reduction associated with existing climate variability and future climate change into strategies for the reduction of disaster risk and adaptation to climate change...”. The PPCR will work closely with the UN International Strategy for Disaster Risk Reduction (UNISDR) and the Global Facility for Disaster Risk Reduction (GFDRR) to ensure synergy between the strategic work programs of the organisations.

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 integrating financing for climate resilience into policy-based lending and sector-wide approaches. Its purpose is to provide lessons that might be taken up by the development community and under the climate change regime in the future and in particular by the Adaptation Fund. This pilot seeks to demonstrate the benefits of full scale interventions covering the full range of sectors, financial resources and with sufficient resources to move quickly from planning to action.

9. The PPCR is designed to be complementary to existing sources of adaptation funding and supportive of the evolving operation of the Adaptation Fund. Its core feature is that is designed to deliver a package of funding at scale to help transform national development planning to make it more climate resilient. Resources from the PPCR will be blended with other resources from the MDBs and with national resources to promote institutional change, capacity building and learning through implementation of climate resilient national development priorities. These goals can be achieved only through a partnership between the recipient country, donors, the MDBs and UN Agencies.

10. The Trust Fund Committee of the Strategic Climate Fund and the Sub-Committee for 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.

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 climate change negotiations. Actions to address climate change should be guided by the principles of the UNFCCC;
- (b) While recognizing that the GEF and the Adaptation Fund are the delivery mechanisms for support provided under the UNFCCC, 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, complementing other ongoing activities. 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 and other donor funded activities 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.

13. Each MDB will follow its own policies and procedures, including appropriate environmental and social safeguards.

Objectives of the PPCR

14. 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.

Types of investments

15. The PPCR will move quickly to provide approximately 10 countries¹³ with scaled-up support for integrating climate resilience into their development planning and budgets. Where relevant, cooperation will be established with other ongoing national adaptation programs. 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,

¹³ The Trust Fund Committee will determine the number of countries in the pilot program, taking into account, among other things, the resources available for the program.

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 public and private sector investments identified in the climate resilient development plans. There will be an emphasis on budget support, sector-wide approaches, coordinated investment programs across key sectors, and blending with national financing and/or 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 domestic public and private financing. 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 [and 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) [up to six representatives from donor countries to the PPCR identified through a consultation among such donors and at least one of which should be a member of the SCF Trust Fund Committee] [all donor countries to the PPCR and at least one of which should be a member of the SCF Trust Fund Committee];
- (b) [a matching number of representatives from recipient countries approved as pilots under the program at least one of which should be a member of the SCF Trust Fund Committee. Prior to the approval of the first recipient countries to receive funding from the PPCR, eligible recipient countries will nominate a matching number of developing countries to serve on the Sub-Committee. These representatives will cease to be

members of the PPCR-SC following the selection of recipient countries for the Pilot Program;] OR

- (c) [a representative of each recipient country approved as a pilot under program at least one of which should be a member of the SCF Trust Fund Committee. Prior to the approval of the first recipient countries to receive funding from the PPCR, eligible recipient countries will nominate [three][six] representatives to serve on the Sub-Committee. These representatives will cease to be members of the PPCR-SC following the selection of the [third][sixth] recipient country for the Pilot Program;]
 - (d) the developing country Chair or co-Chair of the Board of the Adaptation Fund (or nominee).
 - (e) Members of the MDB Committee and the Trustee may attend the PPCR-SC as observers.
20. To ensure good linkages and effective cooperation 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. The experts group will be invited to identify a member of the group to observe the Sub-Committee. Civil society will also be invited to identify a representative to observe the Sub-Committee.
21. 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.
22. 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.
23. 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 member, 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

24. 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) ensure complementary between activities foreseen for the PPCR and activities of other development partners active in the field of climate change adaptation, including the GEF and the UN, and ensure effective cooperation between the PPCR and the GEF and UN country activities to maximize synergies and avoid overlap.
 - (d) ensuring that lessons learned are transmitted through the TFC to the Board of the Adaptation Fund, the UNFCCC and other stakeholders; and
 - (e) Exercising such other functions as they may deem appropriate to fulfil the purposes of the PPCR.

Frequency of meetings

25. The PPCR-SC will meet at such frequency as it may decide, but not less than once a year. The PPCR-SC may review and approve trust fund financing for programs as needed, at a level and through means and procedures appropriate to program review.

Country Eligibility

26. Country eligibility will be based on:
- (a) ODA-eligibility (according to OECD/DAC guidelines); and
 - (b) an active MDB country program.¹⁴
27. Final selection of pilot countries will be the decision of the PPCR-SC. Priority will be given to countries eligible for MDB concessional funds¹⁵ or Small Island Developing States.¹⁶

¹⁴ An “active” program is where a MDB has a lending program and/or an on-going policy dialogue with the country.

¹⁵ List the acronyms for concessional funds

Expert Group

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 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 members should be selected in accordance with clear and transparent criteria to be approved by the Sub-Committee, taking into account professional qualifications of the experts. The group should include experts from both developed and developing countries. The Chair and co-Chair of the Board of the Adaptation Fund, or their nominees, will be invited to participate on the nomination and selection process of the Expert Group.

PPCR Programming

30. Taking into account the recommendations of the Expert Group the PPCR-SC will draw up a short list of countries to be considered for the Pilot Program and these countries will be invited to make an expression of interest. On receiving an expression of interest one of these countries, the MDBs and any UN agencies concerned will conduct a joint programming mission to engage with the government, appropriate UN offices in the country, private industry, civil society and other stakeholders on how the pilot program may assist the government to enhance the climate resilience of their national development planning. The outcome of the joint exercise will be a clearly articulated approach, developed under the leadership of the recipient country, for the use of the Pilot Program's resources in targeted sectors of the recipient country through a country - MDB program.

31. Country - MDB programs will be submitted to the PPCR-SC for approval for inclusion in the pilot program. The further processing of components of approved programs would follow the MDB's policies and procedures for appraisal, approval and supervision.

Sunset Clause

32. 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. The Sub-Committee will not approve any new PPCR financing for activities after calendar year 2012.

Monitoring and Evaluation

33. The PPCR will report regularly to the Trust Fund Committee, and an independent evaluation of the operations of the PPCR and its activities will be carried out jointly after three years of operations by the independent evaluation departments of the MDBs. Results achieved through the PPCR should be published and publicly available. Full reporting criteria, including results measurement at the programmatic, country and institutional levels, will be agreed by the Trust Fund Committee of the SCF.

Learning from the PPCR

34. Many of the main learning objectives should be achieved within the first one to two years of operation of the Pilot Program. Other development partners, active in the field of climate change adaptation, will be invited to share their experiences so that a consolidated and coherent body of knowledge can be developed, bringing together major lessons learned for application in relevant development frameworks. Priority research needs that are expected to increase the effectiveness of climate resilience planning and implementation should be identified. The effectiveness and lessons learned from the pilots will be evaluated before December 31, 2012, and widely disseminated. The Board of the Adaptation Fund will be invited to play a leading role in the design of 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.