



AOSIS SUBMISSION ON VIEWS OF THE SECOND REVIEW OF THE ADAPTATION FUND (AF)

Pursuant to Decision 2/CMP.9, the Alliance Of Small Island States (AOSIS) welcomes the opportunity to share its views on the Second Review of the Adaptation Fund.

AOSIS members across the Caribbean, Indian Ocean and Pacific regions are already experiencing the growing impacts of climate change on their land, communities, fragile economies and development prospects. Access to scaled-up, reliable financing for concrete adaptation projects and programmes constitutes an immediate and urgent need for our members.

AOSIS welcomes the pledges made in November 2013 by Sweden, the Brussels capital region in Belgium, Austria, Belgium, Finland, France, Germany, Norway and Switzerland, that will allow for the Adaptation Fund (AF) to continue its operation and in particular to implement already approved projects, three of which are located in Small Island Developing States. However, these contributions only provides a temporary relief to the pressing funding crisis of the Fund, further action is needed by the CMP to enhance and secure new revenue streams for the AF.

AOSIS notes in particular decisions 1,3 and 4/CMP.18 (Doha, 2012) that extends the 2% levy on CERs into the Second Commitment Period of the Kyoto Protocol and apply a 2% levy on the first international transfers of AAUs and issuance of ERUs for Article 6 projects, as sources of funding. These have not proven beneficial to the Adaptation Fund. AOSIS wishes to highlight the continued instability of the carbon markets as a reliable and predictable source of fund for Adaptation.

Therefore, AOSIS, in line with the Group of G77 and China, wishes to reiterate its concern over the severe financial crisis the Adaptation Fund continues to face since 2013. We stress that the FUTURE of the Adaptation Fund is still threatened. In 2013 it became clear that as long as the price of carbon remains low and volatile, the AF cannot fulfill its purpose by only relying on the monetization of CERs, complemented by voluntary contributions by developed country Parties.

AOSIS wishes to place on record its appreciation to the AF Board for taking action to protect the resources of the Fund by limiting access of Multilateral Implementing Entities (MIEs) while ensuring that National Implementing Entities (NIEs) who are accredited have a source of funding as was envisaged by the decisions taken by the CMP. However, given their specific circumstances access by SIDS through Regional Implementing Entities (RIEs), such as SPREP in the Pacific recently accredited, is important while individual countries are undertaking efforts to obtain accreditation for their NIEs.

We also wish to place on record and express our gratitude to the AF Board for its efforts to develop a readiness programme to assist NIEs to become accredited to the Fund. The Board at its 23th meeting took decisions to this effect.

The Adaptation Fund is a role model and AOSIS believes the Second Review should be an opportunity to highlight its specific and mutually reinforcing features, *inter alia* the application of the country ownership principle, the operationalization of the direct access modality, the delivery of concrete results on the ground, its focus on the most vulnerable and its exemplary transparency.

In Warsaw (November 2013) Parties agreed that the main objective of the Second Review will be “to ensure the effectiveness, sustainability and adequacy of the operationalization of the Fund” and that the scope of the Second Review will cover “the progress made to date and the lessons learned in the operationalization and implementation of the fund”.

(a) Provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams

- Ensuring the provision of sustainable and predictable financial resources to the AF can be achieved through diversifying its sources of revenues. The findings and recommendations from the Long Term Finance Work Programme contained in the 2012 and 2013 reports of the Co-Chairs provide a wealth of options for additional sources of finance and bundle of sources that could be implemented at the international and/or national and earmarked for the AF. These options should be explored as a matter of priority.
- Adequacy of resources for the operation of the AF can be achieved through scaling-up the resources of the AF and adjusting the level of resources mobilized to conform with regular estimates by the Board of the needs according to projects already in the pipeline or expected (based on indications by applicant countries, trends and experience in the previous years operation). The Review should therefore provide recommendations as to how the Board could develop an on going fundraising strategy to ensure the resources meet the needs.
- We also note that under existing adaptation funding through the GEF, the SCCF and the LDCF constitute two funding sources that are underutilized and significant resources exist in them, which could facilitate the implementation of concrete adaptation activities in developing countries, in particular SIDS and LDCs. We would expect that under this Review sources of adaptation funding existing under the Financial Mechanism of the Convention would be examined.

(b) Lessons learned from the application of the access modalities of the AF

- The AF has pioneered the implementation of the direct access modalities, which is now recognized as the state-of art, modern way for international financing institutions to ensure fair access to their resources and effectiveness in their delivery.
- The AF has built experience and lessons learned at every stage of the funding cycle. This experience and lessons learned would be useful to analyze and to share with other adaptation financing channels since the direct access modality is now also implemented in some fashion by the GEF as operating entity of the Financial Mechanism of the Convention and the will be implemented on a larger scale by the GCF once operational.

- In particular the Second Review should assess the accreditation process and procedures for National Implementing Entities, which remain very challenging in many recipient countries.
- Learning from the AF experience will also help in the harmonization and rationalization of the procedures, requirements, accreditation processes and capacity-building of Implementing Entities; and in particular at national and regional levels in capacity-constrained countries such as SIDS and LDCs, for which using direct access to the AF remains a challenge.

(c) The institutional linkages and relations as appropriate between the AF and other institutions, in particular institutions under the Convention

- The AF is currently the only fund that is solely dedicated to concrete adaptation, with an emphasis on the most vulnerable and is therefore irreplaceable. However other multilateral funds (CIFs, GEF to a certain extent) are or are in the process of (GCF) developing various types of adaptation activities at different levels.
- Enhancing complementarity and coherence between the AF and other existing climate funds, including those under the Convention should be explored. In particular it should be explored how accreditation procedures and requirements for direct access can be streamlined and made consistent across the UNFCCC Fund.
- The benefits of incorporating the AF into the Financial Mechanism of the Convention and designating it, as an Operating Entity of the Financial Mechanism of the Convention should be explored.
- Also the operational linkages between the AF, the Adaptation Committee and the Standing Committee on Finance of the Convention should be assessed and recommendations made. In particular, the Board could receive support from these two bodies where appropriate, in developing fund-raising strategies.
- The experience of the AF could be shared and drawn upon by other existing funds under the Convention in order to improve their effectiveness and efficiency.

(d) The institutional arrangements for the Adaptation Fund, in particular the arrangements with the interim secretariat and the interim trustee

- By decision 4/CMP.8, the CMP extended the mandate of the interim Trustee of the AF until 2015 and of the interim Secretariat until the completion of the Second Review in 2014. The Review should consider whether permanent arrangements should be determined on the basis of an open and competitive bidding process.
- Conscious of the current financial difficulties encountered by the AF, AOSIS nevertheless wishes to support considering the implications of key recommendations from the Consultant Report on Review of the Interim Arrangements (November 2011), including further possible operational improvements and how to ensure that current arrangements, if extended, will not become a limiting factor in the growth and efficiency of the AF. AOSIS

also supports the consideration of the two options for the establishment of an independent Secretariat structure put forward in the Consultant Report referred to above.