

Draft elements for APA agenda item 8
Preparing for the convening of the first session of the Conference of the Parties serving as the
meeting of the Parties to the Paris Agreement
Adaptation Fund

Informal note by the co-facilitators – final version

These draft elements have been prepared by the co-facilitators of the negotiations on this agenda item under their own responsibility, on the basis of the deliberations by Parties at this session and the views they have submitted. These elements are preliminary and should not be considered as final in any way; they are offered as a basis for work and do not prejudice further work or prevent Parties from expressing their views at any time. It is recognized that the outcome of deliberations on this item will form part of the overall outcome under the “Paris Agreement Work Programme”.

I. Introduction / mandate / purpose

By decision 1/CMA.1, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) decided that the Adaptation Fund should serve the Paris Agreement, following and consistent with decisions to be taken at CMA 1.3, to be convened in conjunction with the twenty-fourth session of the Conference of the Parties (COP), and by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) that address the governance and institutional arrangements, safeguards and operating modalities of the Adaptation Fund.

By decision 1/CP.22, the COP requested the Ad Hoc Working Group on the Paris Agreement in its consideration of the necessary preparatory work on the Adaptation Fund to address the governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement. By the same decision, Parties were invited to submit their views on the aforementioned areas.

At APA 1.3, the co-facilitators produced an informal note to capture the discussions, which took place during the informal consultations. The informal note from APA 1.3 captures in its Annex I a list of options and elements identified by Parties in response to the guiding questions posed by the co-facilitators. This note captures further discussions which took place during APA 1.4.

II. Cross-cutting and overarching considerations / relevant context / general elements

At the first and second informal consultations held during APA 1.4, a number of Parties were of the view that the options and elements identified during APA 1.3 served as a good basis on which to build and which should be further elaborated during APA 1.4. Some Parties were of the view that the task at hand for the APA 1.4 was to develop text for both a CMP and a CMA. Parties also raised a question as to whether decisions by both the CMP and the CMA were required.

A number of Parties also noted that making progress on the Adaptation Fund serving the Paris Agreement should take the form of decision text. Some Parties were of the view that a decision should be taken by CMP13/CMA1.2 to confirm that the Adaptation Fund shall serve the Paris Agreement and that the necessary arrangements required to give effect to that decision should take place over the course of the next year. To this effect, a group of Parties provided written inputs on updated text containing a draft CMP and CMA decision as input to the discussion, contained in

annex 1 to this note. However, there was no agreement amongst Parties to use this agree to use this text as a basis for discussion.

Parties also discussed whether the AF should fall under the authority of the CMP or the CMA or be under the guidance of and be accountable to both the CMP and the CMA, only to the CMA, or only to the CMP. Parties also raised the issue of timing for these options and whether a transition period should be considered.

Other issues that Parties raised relate to the Adaptation Fund Board membership and functions, resource mobilization, potential relationship to Article 6.6 of the Paris Agreement, innovative sources of funding, management of the existing project pipeline and concerns about the sustainability of funding for the Adaptation Fund. Some Parties also noted that outcomes on the negotiations on Article 6.6 should not serve as a condition to a decision on the Adaptation Fund. A number of Parties intervened to note that reference to “innovative sources of funding” should not be used until further defined.

A number of Parties also expressed the view that the current safeguards applied by the Adaptation Fund are fit for purpose and referred to the technical paper prepared as an input to the 3rd review of the Adaptation Fund and information contained therein on the Adaptation Fund’s safeguards policies.

Parties also suggested that a useful output of the discussions could be the identification of work that needs to take place, when certain tasks could or should start and the appropriate body to carry out that work. Parties also noted that some of this could possibly be undertaken by the Adaptation Fund Board, but also noted that this could take place after deciding that the Adaptation Fund shall serve the Paris Agreement.

At the third informal meeting, Parties highlighted that in light of the inputs and discussions, there was room for streamlining the options “a” and “d” identified in the informal note produced during APA 1-3, and this has been reflected in section III of this informal note.

At the fourth informal consultation, the co-facilitators presented Parties with a set of guiding questions: Which issues need to be addressed and when do they need to be addressed? What further information may be needed on these issues? and, What is the appropriate way to address the issue?

At the fifth informal consultation the co-facilitators invited Parties to reflect on what might be included as part of CMP/CMA decisions.

On the question of what issues need to be decided and when, Parties identified a number of issues that may need to be decided “first”. These included decisions related to guidance, reporting and accountability between the Adaptation Fund and the governing bodies (CMP/CMA). Many Parties also identified that decisions regarding the composition of the Board and eligibility to access the Adaptation Fund could be included in a decision confirming that the Adaptation Fund serves the Paris Agreement. Some Parties identified that issues related to safeguards, arrangements for the trustee and secretariat services and operating modalities could be taken at a later stage. Some Parties also noted that the Adaptation Fund Board could be requested to take up some of these issues.

A number of Parties also added to previous discussions regarding sources of funding for the Adaptation Fund, including securing diverse, steady and predictable sources of funding to address current and future demand. A number of Parties also spoke to the need to ensure that the income from the current pipeline of share of proceeds was not lost.

Parties discussed their understanding that decisions could be taken by the CMP and the CMA simultaneously or sequentially. Some Parties understand that the CMP could decide that the Adaptation Fund shall serve the Paris Agreement, and that the CMA could decide on all other issues. Some Parties were of the view that the CMP could decide that the Adaptation Fund shall serve the Paris Agreement and could also decide on many other issues, such as eligibility, share of proceeds, board constitution and a workplan for completing work by the CMA.

III. Elements of relevant guidance

A. Options

- a. Adaptation Fund is under the authority or guidance of, and is accountable to the CMA and serves the Paris Agreement
- b. Adaptation Fund is under the authority or guidance of, and is accountable to both the CMP as well as the CMA (either indefinitely or ad-interim until PA institutions and mechanisms are fully operational) and serves the Paris Agreement

B. Governance and institutional arrangements

- Authority or guidance under which the Adaptation Fund operates
 - Adaptation Fund should only serve the Paris Agreement under the guidance of, and be accountable to the CMA
 - Adaptation Fund shall serve the Paris Agreement, and shall function under the guidance of and be accountable to the CMA
 - Decide to what extent which past guidance to the Adaptation Fund from CMP applies *mutatis mutandis*
- Reporting of the Adaptation Fund Board to which governing body/bodies?
 - The Adaptation Fund Board reports annually to the CMA
 - CMP and CMA to make appropriate arrangements for projects approved under CMP and still within the pipeline.
- Composition of the Board
 - Appropriate legal personality to the Adaptation Fund to enable a new or revised relationship with the interim trustee, the Fund's secretariat, and any other contractual arrangements
 - Link the constitution of the Board to sources and levels of funding
 - Only Parties to the Paris Agreement sit on the Board, with a more appropriate balance of representation (between developed and developing countries) – such as measures related to geographic, gender and other relevant considerations – and preserves a specific role for SIDS and LDCs. Need to decide on the necessary number of board members
 - To undertake further work on governance by CMP 16

- Arrangements for secretariat services and services of the trustee
 - Need to deliberate on whether Adaptation Fund should continue to have its own secretariat and need to decide on whether current administrative arrangement with the GEF could continue
 - The Board (as comprised by the CMA decision) would take subsequent actions to establish new agreements with regards to trustee and secretariat arrangements
 - Need to define whether to establish permanent Trustee arrangements
 - To undertake further work on governance by CMP 16

C. Operating modalities

- Operational policies and guidelines for Parties to access funding from the Adaptation Fund shall apply mutatis mutandis
 - To undertake further work on operating modalities by CMP 16
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- Role in the climate international architecture
 - Contributes to an effective and coherent climate finance architecture
 - Adaptation Fund has the potential to play an important role in the broader framework to support enhanced adaptation action for those that are particularly vulnerable to the adverse effects of climate change
 - Adaptation Fund to focus on its comparative advantages: small scale adaptation projects, innovative approaches, engagement with subnational entities and the private sector, direct access modality
 - Ensure complementarity in the support provided by the Adaptation Fund with the support provided by other funds
 - Adaptation Fund makes a unique contribution including its direct access modalities, capacity to finance small projects, and innovative finance streams
 - Adaptation fund as a key and innovative funding institution for supporting developing countries with regards to adaptation, including enhanced direct access modalities
 - Eligibility of Parties to the Paris Agreement and/or Kyoto Protocol (pending governance arrangement)
 - Developing country Parties to the Paris Agreement are eligible to receive resources from the Adaptation Fund
 - Eligibility restricted to Parties to the Paris Agreement from the date the Fund begins to serve the Paris Agreement
 - Prioritisation given to Parties that are particularly vulnerable – especially SIDS and LDCs
 - Sources of funding to the Adaptation Fund
 - Primary source of funding will be the share of proceeds in line with the relevant provisions under Art. 6.4 of the PA (linkage to other negotiations)
 - Ensure link to Article 6.4 (linkage to other negotiations)
 - Ensure that the share of proceeds of the market mechanism under the KP will flow to the AF during the “transitional period”
 - Financing model of the Adaptation Fund to be flexible and diverse.

- No obligatory replenishment of the Adaptation Fund
- Adaptation Fund not an operating entity of the Financial Mechanism
- Clear definition of “innovative of sources of funding” and no link to Article 6
- Linkages with other bodies and institutions
 - Adaptation Fund should coordinate with other funds supporting Adaptation Projects and Programmes in Developing Countries, the operating entities of the Financial Mechanism of the Paris Agreement, to ensure coherence and complementarity

D. Safeguards

- Coherence of the Adaptation Fund’s safeguards policies to serve the Paris Agreement
 - To undertake further work on safeguards by CMP 16
 - Alignment of the social and environmental safeguards of the Adaptation Fund with the safeguards of the world bank group taking a tier approach and recognizing the small scale of the projects and programmes funded by the AF
 - Ensure that National Implementing Entities and Multilateral Implementing Entities currently accredited by the Adaptation Fund are compliant with the Environmental and Social Safeguards policy
 - Enhanced fiduciary standards
 - Enhanced Environmental and Social Safeguards System (also called an Environmental and Social Risk Management System) with:
 - A robust Adaptation Fund environmental and social safeguards policy articulating the Adaptation Fund’s responsibilities and commitments, including for oversight of Accredited and Implementing Entities
 - Accredited/Implementing Entity requirements that are in line with best practices such as the IFC Performance Standards or the World Bank’s new Environmental and Social Standards
 - Adaptation Fund organizational structure for overseeing the Accredited Entities and their activities
 - Enhanced disclosure policy in line with international best practice (e.g., GCF). System and process by which activities that are funded are regularly monitored and evaluated by the AF and, as appropriate, by independent entity(ies)
 - Independent accountability mechanism that allows Parties that are negatively affected by Adaptation Fund - funded projects to have recourse to a responsible authority that can recommend remedial action
 - Robust/Enhanced Anti Money Laundering / Countering Financing for Terrorism (AML/CFT) policy that is commensurate with the type of risks that the Adaptation Fund faces
- Accreditation process
 - Continuation of direct access modality in particular for NIEs
 - Compliance of the IEs with the new policies

IV. Options for possible transitional period

- a. Decide on whether a transitional period for the arrangements are needed and the length thereof

- b. Decide on transitional period for specific elements of the decision and the related length such as authority and guidance of CMP from 2018 to 2020

A transitional period could be used to ensure continued revenue streams from the share of proceeds from the CDM, ensure continued access by countries to the Adaptation Fund, and allow for any adjustments in operating modalities.

VI. Decision sequencing and timing

- CMP decision first, giving up the authority over the existing Adaptation Fund Board from a specified date and clarifying what will happen to its existing finance and receipt of future share of proceeds under the Kyoto Protocol.
- Both CMP and CMA decision, deciding in 2018 that the Adaptation Fund serves the Paris Agreement from the same date specified in the CMP decision, and addressing elements.
- CMP decision to be taken at COP23 and CMA to endorse later as per the draft decision text submitted by a group of Parties.
- Some Parties identify that there are issues to solve from here to 2018 and then others issues that could be solved after 2018 such as operational policies adopted by Adaptation Fund Board, trustee and secretariat.

Annex I. Input by the G77 and China

Draft CMP decision

The Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol

Recalling decisions 1/CP.10; 1/CMP.3 and related decisions;

Recalling Articles 2, 3, 6, 7, 8, 9 and 11 of the Paris Agreement;

Recalling paragraphs 59 and 60 of Decision 1/CP.21; paragraphs 8 and 9 of Decision 1/CMP.11; and paragraph 11 of Decision 1/CMA.1

1. Decides that the Adaptation Fund shall serve the Paris Agreement, and shall function under the guidance of and be accountable to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, following a decision by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;
- 2- Decides to undertake further work on the current arrangements related to the governance, safeguards and operating modalities of the adaptation fund [by CMP16]

Draft CMA Decision

The Conference of the Parties serving as meeting of the Parties to the Paris Agreement

Recalling decisions 1/CP.10; 1/CMP.3 and related decisions;

Recalling Articles 2, 3, 6, 7, 8, 9 and 11 of the Paris Agreement;

Recalling paragraphs 59 and 60 of Decision 1/CP.21 and paragraphs 8 and 9 of Decision 1/CMP.11;

Further recalling paragraph 11 of Decision 1/CMA.1;

Highlighting the importance of the Adaptation Fund as a key and innovative funding institution for supporting developing countries with regards to adaptation, including through enhanced direct access modalities;

Recognizing that the Adaptation Fund is already enhancing the implementation of the Paris Agreement, in particular with regard to supporting developing country Parties actions in adaptation through financial support received and capacity building, in line with articles 2, 6, 7, 9, and 11 of the Paris Agreement;

Acknowledging that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall ensure, in accordance with Article 6.6 of the Paris Agreement that a share of the proceeds from activities under the mechanism referred to in Article 6.4 is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;

Also acknowledging the relevant experience of the Adaptation Fund Board in monetizing carbon assets;

1. Welcomes the decision of the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol that the Adaptation Fund shall serve the Paris Agreement and shall function under the guidance of and be accountable to the CMA
2. Confirms that the Adaptation Fund shall serve the Paris Agreement and shall function under the guidance of and be accountable to CMA;
3. Decides that the operational policies and guidelines for Parties to access funding from the Adaptation Fund, including Operational policies and guidelines for Parties to access resources from the Adaptation Fund, results-based management framework (and that of the readiness programme), risk management framework, environmental and social policy, gender policy, open information policy, knowledge management strategy, resource mobilization strategy, and medium-term strategy shall be applied *mutatis mutandi* when the Adaptation Fund serves the Paris Agreement;