

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

First iteration (10.11.2017)

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 prejudge 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, safeguard 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.

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

At the first and second informal consultations held in APA 1.4, a number of Parties were of the view that these options and elements served as a good basis on which to build and should be further elaborated during APA 1.4. Some Parties were also of the view that the task at hand for the APA was to develop text for both a CMP and a CMA. A Party 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 CMP.13/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.

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 related to 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 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. A Party 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 will serve the Paris Agreement.

III. Elements of relevant guidance

A. Options

- a. Adaptation Fund is under the authority or guidance of, and is accountable to the CMP and serves the Paris Agreement
- b. Adaptation Fund is under the authority or guidance of, and is accountable to the CMA and serves the Paris Agreement
- c. 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
- d. Adaptation Fund is under the authority or guidance of, and is accountable to the COP and serves the Paris Agreement

Overarching considerations (option on a transitional period)

- a. Decide on whether a transitional period for the whole arrangements is needed and the length thereof
- b. Decide on transitional period for specific elements of the decision and the related length

B. Governance and institutional arrangements

- Authority or guidance under which the Adaptation Fund operates
 - From 2020 the AF should only serve the Paris Agreement in accordance with the CMA/CMP decisions in 2018 (and subsequent decisions) and operates under the guidance of the CMA
 - Adaptation Fund should only serve the Paris Agreement under the guidance of, and accountable to the CMA

- Authority to be shifted from under the authority of the CMP to under the guidance of the CMA and need to define if a transitional period is needed and the necessary arrangements thereof.
 - Adaptation Fund shall serve the Paris Agreement, and shall function under the guidance of and be accountable to the CMA
 - Decide to what extent of which past guidance to the AF from CMP applies mutatis mutandis
- Reporting of the Adaptation Fund Board to which governing body/bodies
 - The Adaptation Fund reports annually to the CMA
 - AF is accountable to the CMA
 - AFB under the guidance of and accountable to the CMA as from a date to be specified by both CMP and CMA in their respective capacities;
 - CMP and CMA to make appropriate arrangements for projects approved under CMP and still within the pipeline.
 - Composition of the Adaptation Fund Board
 - Appropriate legal personality to the AF 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 seat 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 SIDS and LDCs.
 - Need to decide on the necessary number of board members
 - To undertake further work on governance, safeguards and operating modalities by CMP 16.
 - Arrangements for secretariat services
 - It could be done after 2018
 - Need to deliberate on whether AF 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.
 - To undertake further work on governance, safeguards and operating modalities by CMP 16.
 - Arrangements for services of the trustee
 - It could be done after 2018
 - 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 permanent Trustee arrangements
 - To undertake further work on governance, safeguards and operating modalities by CMP 16.

C. Operating modalities

- Operational policies to deal with after 2018
- Operational policies and guidelines for Parties to access funding from the Adaptation Fund shall apply mutatis mutandis
- To undertake further work on governance, safeguards and operating modalities by CMP 16

- Role at the climate international architecture
 - Contributes to an effective and coherent climate finance architecture
 - AF 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.
 - AF 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 AF with the support provided by other funds
 - AF 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
 - Ensure link to article 6.4
 - Ensure that the share of proceed of the market mechanism under the KP will flow to the AF during the “transitional period”
 - Financing model of the AF to be flexible and diverse. No obligatory replenishment of the AF (AF not an operating entity of the Financial Mechanism)
- Linkages with other bodies and institutions
 - AF should coordinate with other funds supporting Adaptation Projects and Programmes in Developing Countries, in particular 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 governance, safeguards and operating modalities by CMP 16
 - Alignment of the social and environmental safeguards of the AF 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 NIES and MIES currently accredited by the AF are compliant with the ESS policy
 - Enhanced fiduciary standards.

- Enhanced Environmental and Social Safeguards System (also called an Environmental and Social Risk Management System) with:
 - A robust AF environmental and social safeguards policy articulating the AF'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.
 - AF 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 AF-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 AF faces.
- Accreditation process
 - Continuation of direct access modality in particular for NIEs
 - Compliance of the IEs with the new policies and need to decide on whether a transition period is needed for that
 - Ensure that the IE comply with robust standards

IV. Timeline

Some parties identify that there are issue to solve from here to 2018 and then others that could be solved after 2018 such as operational policies of AFB, trustee and Secretariat.

V. Decision sequencing

- CMP decision first, giving up the authority over the existing AFB from a specified date and clarifying what will happen to its existing finance and future share of proceeds receipts under the Kyoto Protocol.
- 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.