

Divide over future of the Adaptation Fund under Paris Agreement

Penang, 24 Nov (Meena Raman and Aura Martinez)- Developed and developing countries are divided over the future and nature of the Adaptation Fund (AF) under the Paris Agreement (PA). The AF is currently under the Kyoto Protocol (KP).

This divide has become even more apparent from the most recent discussions that took place at the recently concluded climate talks in Bonn, Germany, that took place from 6 to 18 Nov, under the UNFCCC's Ad Hoc Working Group on the Paris Agreement (APA) over the matter of the AF serving the PA.

While the **G77 and China** wants the AF as it currently stands in terms of its operational policies and guidelines for Parties to access the Funds to remain the same when the AF serves the PA, developed countries on the other hand appear to want to change the nature of the AF from what it is today.

After a contentious and prolonged wrangling in Marrakech last year, the first meeting of Conference of Parties meeting as the Parties to the PA (CMA 1) decided that “the “AF *should* serve the PA, following and consistent with decisions to be taken...” in 2018, “that address the governance and institutional arrangements, safeguards and operating modalities of the AF”. (para 11 of decision 1/CMA1.1)

At the same time, (by decision 1/CP.22, para 14), Parties requested “the APA in its consideration of the necessary preparatory work on the AF to address the governance and institutional arrangements, safeguards and operating modalities for the AF to serve the PA.”

It has been clear from the discussions since last year that there are two kinds of challenges for Parties, especially developing countries on the issue of the AF viz. the institutional and governance issues related to how to make the AF serve the PA; and sources of funds for the AF.

During the recent Bonn session of the APA, the co-facilitators of the informal consultations on the AF

matter, **María del Pilar Bueno (Argentina)** and **Pieter Terpstra (the Netherlands)** invited and received four inputs from Parties which they annexed to their informal note which revealed differing views on the future and nature of the AF.

In the input provided by the **G77 and China**, the proposal was for a draft decision by the Conference of Parties serving as the meeting of Parties of the Kyoto Protocol (CMP) “to decide that the AF shall serve the PA, and shall function under the guidance of and be accountable to the CMA, following a decision by the CMA.” It also called for further work to be undertaken “on the current arrangements related to the governance, safeguards and operating modalities of the AF.”

The G77 and China also proposed a draft decision for the CMA that “welcomes the decision of the CMP that the AF shall serve the PA and shall function under the guidance of and be accountable to the CMA,” and for a decision by the CMA to confirm the same.

The proposal also calls for Parties to decide “that the operational policies and guidelines for Parties to access funding from the AF, including (its) operational policies and guidelines..., 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 mutandis* when the AF serves the PA.”

The G77 and China proposal also acknowledges “that the CMA shall ensure, in accordance with Article 6.6 of the PA that a share from activities under the 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”.

(The mechanism referred to under Article 6.4 of the PA is as follows: “*A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the CMA for use by Parties on a voluntary basis.*”)

The **European Union (EU)** proposed textual elements for the CMA and CMP decisions in 2018. According to the inputs from the EU, “From 2020, the AF should serve only the PA in accordance with the CMA/CMP decisions in 2018 (and subsequent decisions). From the date the AF should serve the PA, the AF operates under the guidance of, and reports annually to, the CMA.” The EU input makes clear that the “AF is not an operating entity of the financial mechanism.”

It states that the “AF contributes to an effective and coherent climate finance architecture. From the date the AF should serve the PA, developing country Parties to the PA are eligible to receive resources from the AF.”

On the issue of funding, the EU states that “the financing model of the AF should be flexible and diverse” and that it “does not support any obligatory replenishment to the AF.”

It also states that “the current composition of the Board has worked well” but “potential revision of the composition depends on outcome of preparatory work, for instance sources and levels of funding.”

The EU input also proposes that Parties have to “decide to what extent the previous guidance to AF in relevant decisions of the CMP, including those agreed before adoption of the PA, shall apply *mutatis mutandis* to the AF when it serves the PA.”

In the input provided by **Australia, Canada, Japan, New Zealand,** and the **United States,** they state that they “...consider that the AF should only serve the PA” and that the Fund “has the potential to play an important role in the broader framework to support enhanced action for adaptation by those Parties that are particularly vulnerable to the adverse impacts of climate change in a manner that complements rather than duplicates existing architecture.”

It states further that they “value the elements of the AF that see it make a unique contribution including its direct access modalities, capacity to finance small projects, and innovative finance streams.”

On the issue of sequencing the decisions for the AF to serve the PA, the input provides that “the CMP would take the first decision - giving up all authority over the existing AF Board from a specified date and clarifying

what will happen to its existing finance and future share of proceeds receipts under the KP.”

“The CMA would decide in 2018 that the AF serves the PA from the same date specified in the CMP decision, and address: Board composition that reflects the PA; transitional arrangements between the CMA and the Board, which would see the Board operating ‘under the guidance of and accountable to’ the CMA; the mandate of the Standing Committee on Finance to prepare draft guidance to the AF from the CMA, and governance and institutional arrangements, safeguards and operating modalities (including as specified herein.)”

On ‘governance and institutional arrangements’, the input states that:

• “The AF serves only the PA, and stops serving the KP from the date specified in both the CMA and CMP decisions a date to be specified by the CMA and CMP in their respective capacities;

• The CMP and CMA address reporting arrangements for projects approved under the CMP and within the project pipeline, in light of their respective capacities;

• Board composition reflects the PA, including a more appropriate balance of representation - such as measures related to geographic, gender and other relevant considerations - and preserves a specific role (for) Small Island Development States (SIDS) and Least Developed Countries (LDCs);

• The AF enjoys appropriate legal personality to enable a new or revised relationship with the interim trustee, the Fund's secretariat, and any other contractual arrangements.”

On the operating modalities, the input states that “eligibility is restricted to Parties to the PA from the date the Fund begins to serve the PA,” and “prioritisation (is) given to Parties that are particularly vulnerable - especially SIDS and LDCs.”

Switzerland in its input said that it “fully supports the AF and believes it should serve the PA under the common understanding that it will continue to focus on its comparative advantages. In our understanding, the Fund should, in order to serve the PA, be under the guidance of the CMA and therefore be shifted from the Kyoto Protocol to the PA. The primary source of funding should continue to be share of proceeds from market mechanisms. The shift of the Fund to serve the PA is a critical item for its continued vitality. Therefore, as the Parties discuss transitional periods, the discussions should hold the principle that transitional periods for various elements of the Fund--or single

transitional period for all elements-- should be kept reasonably short.”

As the week continued, developing countries demanded to begin actual textual negotiations in order to expedite the decision-making process but developed countries (notably **Australia** and **Japan**), wanted to continue work on the basis of informal notes.

With no resolution in sight, consultations continued in an ‘informal informal’ setting under the CMP Presidency (Fiji) under the CMP agenda item on ‘matters relating to the AF’, which went on till early morning of Saturday, 18 Nov. and was one of the reasons for the delayed closure of the APA as well as the COP and CMP.

At the CMP

Various efforts were made by the Fijian Presidency to help resolve the impasse which led to a final decision being adopted by the CMP on 18 Nov. The relevant part of the decision in relation to the AF serving the PA is as follows:

According to para 13 of the decision, the CMP decided “that it will consider whether the AF shall serve the PA

exclusively, under the guidance of and accountable to the CMA, following a recommendation from the CMA on this matter to the CMP at its 15th session (Nov 2019).”

In para 14 of the decision, the CMP noted “the progress of the APA in undertaking the necessary preparatory work to address governance and institutional arrangements, safeguards and operating modalities for the AF to serve the PA, including sources of funding, to be defined by Parties, and looks forward to the recommendations thereon from the APA in 2018.”

In para 15, the Parties recognized “that the AF should continue to contribute to an enhanced, efficient and coherent climate finance architecture.”

The APA discussions next year are bound to be contentious, as Parties attempt to bridge the current divergence of positions as regards the AF serving the PA.