

## **APA Agenda Item 8a: Informal Consultations on Issues Related to the Adaptation Fund**

*November 9, 2017 – 11:00-12:00, Room Rakiraki*

*Note taker: Anna McGinn*

### **Informal Session Summary:**

During this informal consultation, the primary issue discussed was the operation of the Adaptation Fund under the Paris Agreement. Previous discussions encouraged Parties to prepare submissions for the Secretariat, many of which take the form of draft decision texts. While legal advice is still needed, the consensus seems to be that at least two decisions need to be taken, one by the CMP, followed by an affirming decision of the CMA.

On this note, three major items arose:

1. Many countries expressed a desire to move forward on this issue quickly and make immediate progress. To this end, there seems to be agreement that a decision should be taken this year that says the Adaptation Fund shall serve the Paris Agreement. This is a notable upgrade from the language in Paris (may serve) and Marrakech (should serve).
2. Questions remain about the necessary institutional arrangements needed to operationalize this decision. This includes discussions about where guidance should come from, necessary safeguards, sources of funding, and the time-frame to settle these issues. Some countries (Burkina Faso on behalf of LDCs) suggested that the change in language (shall serve) would be a sufficient victory for this COP, though others (Norway) would like to see more discussion of the substantive issues.
3. Finally, the source of funding for the Adaptation Fund appears to be a contentious issue. Mexico made note of the possibility of using “innovative financial mechanisms,” which Saudi Arabia soundly opposed on the grounds that the Adaptation Fund’s operation under the Paris Agreement should not be contingent on the implementation of a carbon market. Switzerland expressed a different opinion, suggesting that the source of funding is one of the most important issues for this discussion, and the role of market mechanisms was agreed to in Paris. Most parties seemed to agree that some action could be taken immediately, even as these outstanding issues related to institutional arrangements remained unsolved, while specific discussions about the role of carbon markets could be taken up under article 6.4 and 6.6 of the Paris Agreement.

- *Kevin M. Adams, Stockholm Environment Institute*

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### **Co-Facilitator**

- More preparatory work is needed
- Discussions about the adaptation fund serving the Paris Agreement
- Inputs so far from some countries, mainly developed; many others not yet prepared
- At the stage to begin preparing an informal note
- Floor to parties to introduce inputs

Bahamas

- Group of 77 and China is working on a solution, but unable to meet the deadline
- Many members of the group are just now getting access to the document
- Sees this matter as one that action needs to be taken on
  - Does not want to discuss actual text
- Do need to progress this matter
- Have submitted draft CMP/CMA decisions on conversations that we have had

#### Co-Facilitator

- Would like parties to elaborate on what is in their submissions, so the room is aware of what is included and on the table
- Also need approval to move forward on informal note

#### Bahamas

- Able to put text on the screen?
- Would like to introduce the draft decisions to everyone in this room
- Yes, we are in agreement with moving forward on informal notes

#### Co-Facilitator

- Unable to put on screen, for time/logistical reasons
- Oral introduction on the submission (5 minutes) would be helpful

#### European Union

- Difficult to do this if not everyone had the text
- Would be easier if we could actually see them on the screen

#### Co-Facilitator

- Yes, but keep in mind we are not going line-by-line

#### Bahamas

- Position this group has taken is that there is a need to progress on this issue
- This text is intended to replace earlier submissions
- Two decisions – draft CMP and CMA decisions
- Draft CMP decision – two items
  - decides that the adaptation fund shall serve the PA under the guidance of the CXOP and serving as the meeting of parties of the Paris Agreement
  - Decides to undertake further work on current arrangements related to governance and modalities
- Draft CMA decision – three items
  - Procedural item of welcoming the decision taken by the CMP
  - Confirms the AF shall serve the Paris Agreement and shall function under the guidance and be accountable to the CMA
  - Decides that operational policies and guidelines for parties to access funding from the adaptation fund shall be applied mutatis mutandi when the Adaptation Fund serves the Paris Agreement

#### European Union

- See two decisions
- Should serve only the Paris Agreement from 2020
- Kyoto Protocol up until then

- Operates under the guidance of and reports annually to the CMA
- Is not an operating entity of the financial mechanism
- Placeholders for founding, board composition
- Potentially decide to what extent the previous guidance to the AF in decisions of the CMP shall apply
- Mandates for issues that do not have to be decided in 2018
  - Mandate to the AF board to check operational policies and revise them. AF board reports back to CMA/CMP so that also non-KP parties can participate
  - Potentially – secretariat and trustee to check arrangements with AF board

#### Switzerland

- Should be a transitional period that should be reasonably short
- On institutional arrangements
  - Authority under which AF operates – information on how AF can be shifted from under the authority to CMP to under the CMA
  - Reporting – which body it should report to, things developed under the transparency framework should operate under same rules as the financial mechanism
  - Guidance
  - Composition – should depend on source of funding
  - Eligibility criteria – similar to EU
  - Secretariat services
- On Operating modalities
  - Role of fund
  - Sources of funding – absolutely essential that the preliminary source of funding is share of proceeds in line with relevant provisions under article 6.4 of Paris Agreement
  - Linkages with other bodies
- Overarching considerations
  - Transitional period – two options
    - Different periods for different elements
    - One for everything
    - Open to discussing these
- Would like support from the secretariat for legal advice on clarification and common understandings on whether we need decisions from CMP and CMA decisions. Happy to do if there is a legal understanding for this, but would like to confirm. What is the sequencing? Also, would like information on other decisions that would be needed to operationalize this.

#### Canada

- On behalf of Australia, Canada, Japan, New Zealand, and USA
- Framing
  - AF has an important role in implementing the Paris Agreement
- Decision sequencing
  - CPM takes first decision
  - CMA decides in 2018 that AF serves the PA
    - Addresses – board composition, transitional arrangements, guidance provided to the AF, and governance and institutional arrangements
- Safeguards

- Enhanced fiduciary standards and other safeguards critical
- Outstanding questions
  - Without prejudice to the development of the mechanism under Article 6.4, what is the relationship between AF and article 6.6
  - *Two others that were not discussed*

#### Co-Facilitators

- Other parties who have not provided submissions, are there concerns that have not been raised?
- Still have until 2:00 PM to provide further input

#### New Zealand

- Expresses importance of AF to help, in particular vulnerable neighbors
- Complementarity of other funds (including direct access)
- Agree with G77 that action should be taken this year
- Operationally speaking the fund is not ready to serve the Paris Agreement
- Want to take more than a symbolic decision
- Hoping to take action at this meeting and at COP 24

#### Mexico

- Agree with general statement that market mechanisms should be primary source of funding
- When will these have the moment to really promote adaptation projects?
- Would like to consider more flexible and innovative sources relevant for the transition phase of the AF and also the operation of the fund

#### Co-Facilitator

- Get the feeling that we can progress and put together an informal note
- Shall we use the informal note that is already there and use the information that you have provided us to populate the document

#### Saudi Arabia

- Intrigued by Mexico's intervention
- Clearly putting on the table the option to create carbon markets and fund the Adaptation Fund
- We do not wish to put the destiny of allowing the AF to serve the PA under the condition of us to accept the carbon markets
- Unwilling to negotiate on this basis
- Want to remind us that the Paris Agreement is a cooperative approach. Article 2.1b on increasing resilience, which includes the adaptation fund. Financial flows are needed to address this in the context of sustainable development
- This proposal goes against the Paris Agreement
- Have not come across the terminology of innovative financing
- In your notes, for the record, this is a non-starter for us
- If the AF serves the PA on this condition, there is no mention in Article 6 of markets
- We will not be able to achieve the 2 degree future without the co-benefits of adaptation
- If we do not allow the AF to serve the PA and enhance resilience, we will not meet the global goal

- Should allow it to serve the PA, but not on these grounds

#### Egypt

- Are we moving forward the discussion on the AF serving the Paris agreement, or are we negotiation under article 6 in the Paris Agreement, which should not be part of our discussions here
- Need to have this assurance that we are progressing toward achieving something
- Need to have the AF serve the PA, and then we can discuss the governance arrangements
- We are not structuring a new fund
- Need to give assurance here, start working on modalities
- Need to agree that the functions will be expanded to serve the Paris Agreement
- Can handle the rest later, leading up to 2020

#### Co-Facilitator

- Closes the list

#### Switzerland

- Unfortunate that Saudi Arabia is no longer in the room, as I was hoping to respond to those elements
- In agreement that this room does not talk about article 6.4
- We include share of proceeds in our proposal based on 6.4 which was agreed in Paris
- Would like to focus on the AF
- We do not see this as the only source of funding, but we do see it as the primary source of funding
  - Other sources is another conversation
  - If that source is not part of the conversation, that is a non-starter for us
- Many other streams of adaptation finance
- We have supported the AF since before the PA, and this has always been an important prerequisite

#### Argentina

- On behalf of Brazil Uruguay and Argentina
- If we think about where we were in Paris, or in last May, this is a great development, which deserves to be noted
- We are all in agreement that we have to make a decision, that the CMP needs to make a decision on the AF and following that the CMA will make its own decision confirming that
- There are a lot of issues that parties would like to see addressed
- We are also of the view that some of these issues need to be addressed
- How we deal with that is the key to moving forward
- Whether it should be the AFB should do some of this preparatory work for specific items that are administrative that must be addressed
- Safeguards – safeguards need to be reviewed, but this lies with the AF board, not the CMP or CMA. Cannot micromanage the fund just because it will be under the PA

#### European Union

- Would like to clarify one issue: we do not intend to suggest any large reforms of the AF

- Do agree with others that some administrative issues will need to be changed. Want to make sure that when we meet next time that all those issues are on the table
- No suggestions to go toward reforming the AF as such

#### Japan

- COP23 gave us a timeline for this matter and a mandate for preparatory work
- From these submissions, we can identify issues that need to be cleared by next year, or later

#### Burkina Faso

- On behalf of LDCs
- Very keen to see positive movement and expect that we should leave Bonn with a positive route
- Have gone from may to should and having a “shall” here will be a positive move
- Then, next year, on the modalities and structure we can continue negotiating

#### Norway

- Reflecting on the G77 submission, would like to know more on the governance and institutional arrangements operational modalities, safeguards, and how that can be fleshed out
- Would like to not negotiate on should or shall, but rather negotiate on the issues
- On the sources of the fund, today it is a hybrid, so we have some work to do
- We have collected material now and are ready to go along with the co-facilitators note which signals what work needs to be done by the Board and other Parties

#### Bahamas

- There is a positive mood in this room
- Third review of AF covers many of the issues which need to be addressed – Parties are encouraged to read it
- Position taken by G77 and China – do need to move forward, and would like to do more than an informal note, but rather work on a draft decision
- Need a report, but we need to work on the issues and cannot defer any longer. Need to understand who needs to do what, why, and when

#### Co-Facilitator

- Close meeting

\*\*\* *Close* \*\*\*