

The Adaptation Fund

AFB/B.3/14
September 5, 2008

Adaptation Fund Board
Third Meeting
Bonn, September 15-18, 2008

Agenda Item 7

REIMBURSEMENTS OF FUNDS TO PARTIES FOR THEIR CONTRIBUTIONS PURSUANT TO PARAGRAPH 27 OF DECISION 1/CMP.3

(Prepared by Invited Trustee)

1. The Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), in paragraph 27 of Decision 1/CMP.3, (i) invited Parties to finance the administrative expenses for operating the Adaptation Fund (the AF) in an interim phase, until the monetization of the share of proceeds of certified emission reductions (CERs) to meet the costs of adaptation is operational, by making contributions for the AF, and (ii) decided that such contributions shall be reimbursed, if requested, from the monetization of the share of proceeds of CERs, in accordance with procedures and a timetable to be determined by the CMP upon the recommendation of the AF Board.

2. As of August 12, 2008, the governments of Australia, Finland, Norway, and the United Kingdom have paid in contributions in the total amount of USD 1,538,706.78 and additionally, France, Japan and Switzerland have pledged USD 352,568.97¹ to cover the administrative costs and expenses of the AF Board and the AF Secretariat in an interim phase. Among those donors, Australia, Switzerland and the United Kingdom have requested to be reimbursed for their contributions. Details of the status of the contributions are provided in the table below.

Donor	Currency	Amount	US Equivalent ²		Reimbursement
Fully paid in					
Australia	AUD	200,000.00	\$191,340.00	a/	Yes
Finland	EUR	100,000.00	155,340.00	a/	No
Norway	NOK	1,000,000.00	201,726.78	a/	No
United Kingdom	GBP	500,000.00	990,300.00	a/	Yes
			1,538,706.78		
Pledged					
France	EUR	100,000.00	154,655.12	b/	No
Japan	USD	13,093.97	13,093.97		To be discussed
Switzerland	CHF	200,000.00	189,474.68	b/	Yes
			357,223.77		
Total			\$1,895,930.55		

3. As of August 11, 2008, 180.2 million CERs³ have been issued, and 3,605,913 CERs⁴ are held in the AF account in the CDM registry (the AF CDM Account).⁵ As a reference, the

¹ As of August 12, 2008, Switzerland has been sent an administration agreement which needs to be counter-signed and returned to the Trustee; France and Japan are currently working on draft administration agreements which still need to be finalized.

² a/ Represents actual USDs purchased after payment by the donor.

b/ Represents USD equivalent using exchange rates available as of August 11, 2008.

³ http://cdm.unfccc.int/Issuance/cers_iss.html, retrieved August 11, 2008

⁴ <http://cdm.unfccc.int/Issuance/SOPByProjectsTable.html>, retrieved August 11, 2008

current price of CER futures contracts with the December 2008 maturity is around \$19 per ton. If the market for spot CERs develops as expected, and if the spot CER price in 2009 is in line with its current futures level, it should be possible to execute sales in line with the liquidity of the market which would provide the Adaptation Fund with the amount needed to reimburse contributions within six months after the start of monetization. If the liquidity on the exchanges is not sufficient, an over-the-counter spot transaction could be executed.⁶

4. Accordingly, it is suggested that the AF Board recommend to the CMP that the contributions made by the Parties and requested to be reimbursed pursuant to paragraph 27 of Decision 1/CMP.3 shall be reimbursed as follows:

The contributions shall be reimbursed to the relevant Parties, within six months of the commencement of CER monetization for the AF, at the instruction of the AF Board to the trustee for the AF; provided that sufficient cash proceeds are available from monetization (i) after incurred administrative costs and expenses for the AF Board, Secretariat, and Trustee have been either paid or set aside and (ii) after administrative budgets for the AF Board, Secretariat, and Trustee approved by the AF Board for up to two years from the commencement of monetization have been set aside. If there are not sufficient cash proceeds available within six months, reimbursements shall be made to the Parties on a pro rata basis as and when such funds are made available to the Trustee after the administrative expenses specified above have been covered.

⁵ See, paragraph 32 of AFB/B.2/9, which provides: the estimated total possible amount of CERs to be issued by the CDM would be in the region of 2.5 billion tons to 1.5 billion tons by 2012. The estimated amount of CERs to be allocated to the AF would therefore be around 32 million CERs, which would be spread over the 2008-2012 period.

⁶ See, paragraph 53 of AFB/B.2/9.