



ADAPTATION FUND

AFB/B.34/9/Add.2
3 October 2019

Adaptation Fund Board
Thirty-fourth meeting
Bonn, Germany, 10-11 October 2019

Agenda items 12

**TRUSTEE'S COVER NOTE ON
THE TERMS AND CONDITIONS OF THE TRUSTEE
SERVICES TO BE PROVIDED BY THE WORLD BANK
AS INTERIM TRUSTEE**

Adaptation Fund: Trustee Terms and Conditions

1.0 Background:

1.1 The trustee services to the AF are governed by an arrangement between the CMP and the IBRD entitled the “Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund” (the “Terms and Conditions” or “T&Cs”), originally adopted in 2009. Amendment of the T&Cs follows the following process: the T&Cs are reviewed by the AF Board and, following consultation with the IBRD, then submitted to the CMP for adoption by CMP decision. Upon decision by the CMP, the IBRD then formally confirms its acceptance of the revised T&Cs in writing to the AF Board Chair, with copy to the UNFCCC Executive Secretary.

2.0 Amendments to the T&Cs to reflect the AF serving the Paris Agreement:

2.1 Termination Date:

2.1.1 The T&Cs include an automatic termination date and have been amended on four separate occasions to extend this date. The most recent amendment was in 2017, extending the automatic termination date by 3 years, i.e. until May 20, 2020. Absent further action and decision by the AF Board and CMP prior to this date, the T&Cs will expire automatically, and IBRD’s trustee services to the AF would terminate. Notwithstanding any decision by the AF Board on whether to request the IBRD to continue to provide trustee services, it would be beneficial for the AF to avoid any gap in trustee services in order to ensure its continued operation.

2.1.2 A fixed termination nevertheless introduces certain limitations that may be detrimental to the AF. For instance, as AF funding relies increasingly on donations from Parties, certainty and stability with respect to trustee arrangements provides additional comfort to donors and supports the principle of the AF as a going concern. In addition, the investment horizon considered by the trustee to invest the undisbursed liquid assets of the AF Trust Fund should not exceed the prevailing termination date of the T&Cs. Such fixed termination date therefore constrains potential investment decisions.

2.1.3. The fixed termination date could be viewed as redundant and deleted, since the T&Cs already contain a separate termination provision that permits either party (i.e. CMP or the Trustee) to terminate the T&Cs with prior notice.

3.1 Monetization of carbon assets:

3.1.1 The T&Cs, as amended, have provided an appropriate and effective legal framework for the services provided by the Trustee since 2009. Following consultations among the Trustee, AF Secretariat and UNFCCC Secretariat, the practical implications for the Trustee of the AF serving exclusively the Paris Agreement (CMA) remain unknown at this time. There is therefore no requirement to amend the T&Cs until new carbon assets in the AF Share of Proceeds are available for monetization and additional information is available. The trigger has been established as the date upon which new carbon assets become available under Article 6 of the PA, however there is no fixed date anticipated for this event, and it remains unclear what the new assets would comprise, and how “become available” is defined in this context.

3.1.2 Insofar as the AF Board is responsible for the day-to-day operations of the AF and the Trustee acts upon instruction and guidance of the AF Board, it is not envisioned that this arrangement needs to be amended.

4.0 Summary:

4.1 The attached draft amended T&Cs include deletion of the automatic termination provision. The parties would rely on the provision in the T&Cs for either party to terminate with advance notice if and when there is a need to terminate the trustee's role in the future. Upon availability of new assets, the AF Board and Trustee may determine any additional steps required.