



ADAPTATION FUND

AFB/B.34/9/Add.5

11 October 2019

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

Agenda items 12

BOARD'S CONSIDERATION OF

(1) 'IMPLICATIONS OF THE FUND RECEIVING THE SHARE OF PROCEEDS FROM ACTIVITIES UNDER ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL WHEN THE FUND SERVES THE PARIS AGREEMENT' AND

(2) 'ANY OTHER MATTER SO AS TO ENSURE THE FUND SERVES THE PARIS AGREEMENT'

I. Summary of the Board’s consideration on Implications of the Fund receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when the Fund serves the Paris Agreement

1. The Board has considered this matter in consultation with the trustee, the UNFCCC Secretariat and discussed this matter at its 33rd, additional meeting (B.33.b) and its 34th meeting in 2019. Relevant information is contained in the Annex I to document AFB/B.33.b/4¹ which is a discussion note prepared by the World Bank as the interim trustee.

2. The focus of the discussion on this theme was on the monetization of the remaining Kyoto Protocol carbon assets (certified emission reductions (CERs) as Clean Development Mechanism (CDM) Share of Proceeds), and the need for a decision to include modalities to monetize remaining carbon credits at the CDM. At the additional Board meeting, the trustee reported to the Board that there is very limited market for these assets, and therefore monetization by the trustee in recent years has focused on small customized transactions with specific buyers willing to pay a premium for small volumes of these CERs. Continued monetization of these assets would be possible, provided that the amendment of the T&Cs is adopted by the CMP and the World Bank as the amendment of the T&Cs maintains the authorization to the trustee to continue to sell these CMP assets.²

II. Summary of the Board’s consideration on “any other matter so as to ensure the Fund serves the Paris Agreement smoothly

3. Considering Decision 1/CMP.14, the Board has considered on this matter. The Board reviewed the Fund’s governing instruments and policies and guidelines as listed below, from the perspectives on whether there is a need of update or revision to ensure that the Fund services the Paris Agreement (PA):

- [Strategic Priorities, Policies and Guidelines of the Adaptation Fund](#) (hereinafter “SPPG”);
- [Operational Policies and Guidelines \(OPG\)](#)
- [Code of Conduct of AFB](#)
- [Zero Tolerance Policy for the Board](#)
- [General guidelines for Committees](#)
- [PPRC ToR](#) and [EFC ToR](#)

¹ Available at: [https://www.adaptation-fund.org/wpcontent/uploads/2019/06/AFB.B.33.b.3 Matters Related to the Mandate Contained in Paragraph 6 of Decision 1 CMP.14.pdf](https://www.adaptation-fund.org/wpcontent/uploads/2019/06/AFB.B.33.b.3_Matters_Related_to_the_Mandate_Contained_in_Paragraph_6_of_Decision_1_CMP.14.pdf).

² 4 See Annex I to document AFB/B.33.b/3, Discussion Note prepared by the Trustee.

- [Accreditation Panel ToR](#)
- [Risk Management Framework](#)
- [Environmental and Social Policy](#) (ESP) (approved in 2013 and amended in 2016): The Board may consider the Parties' views suggested during the negotiation.
- [Gender Policy and Action Plan](#) (adopted in 2016): Update process has been launched in May 2019
- [Open Information Policy](#) (adopted in July 2013): The Board may want to consider updating the policy in line with the international best practices. CSOs (Transparency International) recommended for update or improvement related to, inter alia, a lack of appeal process and process of holding executive session. During APA negotiations, there was a request to the Board to review 'disclosure policies.'
- [Ad Hoc Complaint Handling Mechanism](#) : During APA session, there was a request to the Board to consider a need of 'independent accountability mechanism.
- [Resource Mobilization Strategy](#) (adopted in 2016)
- [Medium-Term Strategy](#) 2018-2022: Will be updated in 2022-2023
- [Methodologies for Reporting AF Core Impact Indicators](#) (adopted in 2014)

4. The review concluded that most of Fund's other policies and core instruments do not appear to require immediate major revisions as they well serve their purposes and are undergoing or will go through update process as scheduled and/or when the need arises. Also, it found that it may not be advisable to amend the OPG and the SPPG because some of their provisions are closely linked to the issue of the eligibility for Board membership which is expected to be decided by CMP 15 and the issue of 'the Parties eligible for funding from the Adaptation Fund.' Regarding the latter, paragraph 1 of decision 1/CMP.3 indicates that "developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change are eligible for funding from the Adaptation Fund to assist them in meeting the cost of adaptation."

5. The Board took note of the information that the secretariat has recently received an official letter from the national government of a country which expressed the interest of the country in accessing the financial resources of the Fund and submitted a nomination of the Designated Authority. As of the date of this report, the country whose government submitted the letter is not a Party to the Kyoto Protocol (KP) and signed the Paris Agreement (PA) and is, according to the government, in the process of ratification of the Paris Agreement. Therefore, as per paragraph 10 of the SPPG ("Eligible Parties to receive funding from the Adaptation Fund are understood as developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change . . .") and paragraph 5 (a) of SPPG (" . . . Adaptation Fund shall [a]ssist

developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the cost of adaptation,") which is a reflection of decision 1/CMP.3, the country cannot be considered as 'eligible Party' for funding from the Adaptation Fund as of the date of receipt of the letter because it is not a Party to KP. However, the question would arise when the country completes the ratification process and becomes the Party to PA: by then, whether this country would become eligible for funding from the Adaptation Fund or not. Although the number of countries which are a Party to either PA or KP but not a Party to both treaties could decrease over time, in the meantime the Fund may encounter requests for funding from a country which is a Party to KP but not to PA, or a country which is a Party to PA but not to KP.

6. In this regard, the Board found that additional guidance or clarification from the CMP or CMA on the matter of 'the Parties eligible for funding from the Adaptation Fund' could help the Fund address such requests from those countries, and decided to include in the addendum to its Report to the CMP 15, its request to the CMP and/or CMA to provide guidance or clarification on the issue of the Parties eligible for funding from Adaptation Fund as referred to in paragraph 1 of decision 1/CMP.3, which is reflected in paragraphs 10 and 5 of the Adaptation Fund's Strategic Priorities, Policies and Guidelines.