



ADAPTATION FUND

AFB/B.41/9/Add.1
30 September 2023

Adaptation Fund Board
Forty-first meeting
Bonn, Germany, 10–13 October 2023

Agenda item 10 c) (iii) and (iv)

**COMMENTS FROM THE WORLD BANK AS AN INTERIM
TRUSTEE ON THE IMPLICATIONS OF THE TRANSITION OF
THE ADAPTATION FUND TO THE PARIS AGREEMENT AND
DEVELOPMENT OF A STRATEGY ON MONETIZATION OF
ARTICLE 6.4, EMISSION REDUCTIONS (A6.4ERS)**

1. The trustee services to the Adaptation Fund are governed by an arrangement between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), and the International Bank for Reconstruction and Development (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 and last amended in October 2019 to remove the automatic termination provision of the T&Cs. At the time of last amendment of the T&Cs, it was deemed not possible or required to introduce further amendments to the T&Cs related to the share of proceeds under Article 6, paragraph 4, of the Paris Agreement as it was not clear what the new assets would comprise and the practical implications of serving exclusively the Paris Agreement were not clear.
2. The T&Cs, as amended, continue to provide an appropriate and effective legal framework for the services provided by the Trustee: Under the current arrangements the Trustee can continue to perform the day-to-day activities under the guidance of the AF Board and continue to serve as the CMP’s agent for the monetization of the AF’s carbon assets under the Clean Development Mechanism (CDM).
3. Given that the new carbon assets arising out of the Paris Agreement (A6.4ERs) are not available yet, which is the trigger for the AF to exclusively serve the Paris Agreement, and in the absence of an established mechanism for the disposal of the remaining AF’s carbon assets under the CDM, it is proposed to take a two-phased approach with regard to the replacement of the T&Cs with an alternative arrangement for servicing exclusively the Paris Agreement. The principal objective is to ensure the continuity of operations supported by the Trustee.
4. The two phases include:
 - **Continue to consult with the AF Secretariat and the UNFCCC Secretariat on the timing of availability of A6.4ERs and their nature:** this will ensure the trustee continues to stay engaged upfront to support its due diligence required for the monetization of the new assets.
 - **Agree on the new T&Cs with the AF Board and their submission to the CMA for adoption and simultaneous decision by the CMP to terminate the current T&Cs:** this step can start following the notification of the availability of A6.4ERs (the trigger to exclusively serve the Paris Agreement) to the AF Board and the Trustee by the UNFCCC Secretariat and the adoption of the mechanism for the disposal of the AF’s carbon assets under the CDM. Simultaneously, the trustee will revise **the monetization strategy**, which will be implemented pursuant to the new T&Cs, to take into account the nature and market developments around the new A6.4ERs assets as well as the monetization of the carbon assets under the CDM should this continue to be required.