Submission from Norway on The Adaptation Fund serving the Paris Agreement

Introduction

COP 21 recognized in 1/CP.21 paragraph 59 that The Adaptation Fund may serve the Agreement and the subsequent paragraph invites the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement to make a decision on the matter at its first session.

COP22 decided that the Adaptation Fund should serve the Paris Agreement and invited parties to submit their views on the governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement.

Norway welcomes the opportunity to present its views on how the Adaptation Fund (AF) best can serve the Paris Agreement (PA).

Norway is positive to letting the AF serve the PA. The AF has, since its establishment in 2001, played an important role in financing adaptation projects in developing countries and generated timely lessons about effective approaches to adaptation finance. In particular, it has piloted modalities for direct access and shown how adaptation projects can be scaled up and replicated. Other funds like The Global Environment Facility (GEF) and The Green Climate Fund (GCF) have learned from the experiences of the AF.

The AF was established and currently operates under the Kyoto Protocol (KP), which i.a elects its Board and gives annual guidance through the CMP. The AF piloted market-based finance mechanisms through income from share of proceeds from issuance of Certified Emission Reduction (CERs). The current low demand for CERs has resulted in a collapse of CER prices and volumes.

The emergence of the GCF, with a dedicated window for adaptation finance, together with the dwindling income from CERs merits further discussion on the role of the AF in the future. The remainder of our submission focuses on two main points: 1) Objectives and guiding principles, 2) Governance and institutional set-up.

Objectives and guiding principles

Norway believes the AF should build on and improve some of its important features and characteristics in order to make it both coherent with and complementary to other UNFCCC funding:

- *Direct access*. Direct access was established on the premise that working with domestic institutions would support implementation capacity in country and support stronger alignment with national priorities. It is vital that the Direct Access Modality continues to be a relevant, effective, and efficient means of channeling adaptation finance.

- *Targeting vulnerability*: The mandate of the AF is to give priority to particularly vulnerable countries and communities; however, the AF should have a more

systematic approach for targeting vulnerability, including the development of specific criteria.

- *Portfolio*: The portfolio should continue to focus on financing smaller and medium sized projects that are well suited for pilots, innovation and learnings that can be replicated and scaled up by GCF and others.

- *Efficiency and effectiveness*. The AF should strive to maximize the impact of its funding. A first Phase Process evaluation of the AF was undertaken in 2015. The Phase II Outcome evaluation focusing on the AF's overall results will give further guidance.

- *Contribute to capacity building and planning*. The AF should continue to focus on strengthening the capacity of the National Implementing Entities (NIE). Supported adaptation projects should be coherent with countries' NAPs.

- *Knowledge Management*: The Fund should further invest in knowledge management to generate and accelerate learning about effective adaptation finance. The AF should further look into how knowledge and experiences can be systematized.

- *Safeguards*. That Fund has recently adopted social and environmental standards and a gender policy. The safeguard standards of the AF should be aligned with the standards of the GCF.

Governance and institutional set-up

Norway believes the key governance and institutional issues to consider are those connected with funding, transition from the KP and linkages to other institutions, in particular the GCF. Our main views are as follows:

- The future funding of the AF could possibly come from a variety of sources, including through the carbon market, bilateral contributions and more.

- Revenues from Market-based finance mechanisms may play a valuable role in mobilizing resources for adaptation. Article 6.6 of the Paris Agreement requires the CMA to ensure that a share of the proceeds from the mechanism established under Article 6.4 is used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. Norway expects that this mechanism will become operational and issue its first units, and thus generate share of proceeds, after 2020. CMA should consider possible modalities for channeling such funds to the AF.

- As discussed above, Norway believes the AF could continue to play a distinct role in the adaptation finance architecture. In particular, there is room for a division of labor between the GCF focusing on larger, more transformative, or financially innovative approaches, and the AF focusing on its niche, cf. above. In order to ensure collaboration and avoid overlap, formal institutional linkages between the AF and the

GCF and the GEF should be considered. Modalities for such cooperation need to be be further analysed and discussed.

- The CDM as part of the KP is not time limited. The KP will at least have to operate through the compliance cycle of the second commitment period (2013-2020), assuming the Doha amendments enter into force. The Secretariat should look at legal and practical aspects related to the transition of this institution to the PA, and a possible need for the AF to serve both the PA and the KP at the same time for some years. Norway would note that other institutions in the process already serve UNFCCC, the KP as well as the PA, such as the Bureau and the Subsidiary Bodies.

- The future governance structure of the AF will need to be discussed in light of the points mentioned above. Key governance issues are the composition of the AF board, the role of the Secretariat and the role of the Trustee.