NEW ZEALAND

Submission to the APA on the Adaptation Fund serving the Paris Agreement
April 2017

1. New Zealand welcomes the opportunity to submit views on "the governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement", as invited by COP22 (Decision 1/CP.22, paragraph 15).

2. In summary, New Zealand suggests that in determining how the Adaptation Fund should serve the Paris Agreement, we:

- Ensure our considerations are focused on seeking an effective financing system for adaptation that emphasise the comparative advantages of the Adaptation Fund and avoid the risks and inefficiencies from a duplicated financial architecture;
- Provide for the Adaptation Fund to be recreated and sit under the Paris Agreement architecture as a standalone fund and subject to the authority of the CMA;
- Provide for the Fund to also be financed by a share of proceeds from activities under the Article 6(4) mechanism – without prejudging the outcome of the ongoing SBSTA negotiations on the Article 6(4) mechanism; and for voluntary contributions to continue to be a source of funding for the Adaptation Fund;
- Provide for annual guidance from the CMA, and for input and recommendations from the Standing Committee on Finance into the annual guidance and regular reviews of the Fund;
- Utilise the outstanding second phase of the independent evaluation of the Adaptation Fund as an input to ensure the Adaptation Fund's governance and institutional arrangements and operating modalities are as effective as possible; and
- Use the current operating modalities as detailed in 1/CMP.3 as a basis, with revisions to reflect the matters raised elsewhere in our submission (as detailed at para 20).

Context

3. New Zealand acknowledges the fundamental importance of adaptation financing and is committed to continuing to support the adaptation efforts of developing countries, in particular the Small Island Developing States of the Pacific.

4. Consistent with Decision 1/CMA.1, we are also committed to securing effective governance and institutional arrangements, safeguards and operating modalities in order for the Adaptation Fund to serve the Paris Agreement. Our overarching priority in doing so should be to ensure the most efficient, accessible and effective delivery of adaptation finance. Therefore, it is important that in determining how the Adaptation Fund should serve the Paris Agreement, we ensure its arrangements and modalities are effective, efficient and fit for purpose.

5. The manner in which the Adaptation Fund should serve the Paris Agreement needs to align with its comparative advantages in directly supporting smaller, concrete projects and avoid creating an inefficient and duplicative financial architecture that is not suited for the current operating context. In practice this means that in considering how the Fund should serve the Paris Agreement, and what role it should play, we need to acknowledge:

- The Fund's well-recognised niche role of supporting smaller and concrete projects that are country driven and largely delivered via direct access, and well suited for pilots, innovation and learning; and
- That the operating context in which the Adaptation Fund will serve the Paris Agreement is considerably different to when the Fund was first established, and the landscape of financing for adaptation has evolved significantly. In particular, the Green Climate Fund (GCF) is now operational and tracking well against its aim of a 50:50 balance between mitigation and adaptation.

Governance and institutional arrangements

Location/architecture

6. For the Adaptation Fund to serve the Paris Agreement, it needs to sit under the Paris Agreement and be subject to the authority and accountability of the CMA. It cannot remain under the authority of the CMP and serve the Paris Agreement within its current institutional structure, due to the different membership of the Parties to the Kyoto Protocol and to the Paris Agreement.

7. Furthermore, should Parties decide to terminate the Kyoto Protocol in the future, the Adaptation Fund would need to be moved under the CMA beforehand. It makes sense to future-proof arrangements by establishing the final and sustainable architecture for the Adaptation Fund to serve the Paris Agreement from 2021.

8. In New Zealand's view, the Adaptation Fund needs to remain under the CMP until 2020 in order to respect pre-2020 action and to discharge its current mandate. The Adaptation Fund should then shift to sit under the CMA on 1 January 2021 (acknowledging the potential crossover in timing of NDCs and the second commitment period), with the updated modalities and arrangements for the Adaptation Fund to serve the Paris Agreement taking

effect at that point. Provision could also be made for the Adaptation Fund to receive any CDM proceeds until the end of the true-up period.

9. We further consider the Adaptation Fund should serve the Paris Agreement as a standalone fund under the authority of the CMA, without being an Operating Entity of the UNFCCC's Financial Mechanism. The Paris Agreement anticipates the direct serving of the Paris Agreement, as evidenced by the language of Articles 9(9), 19(1) and 19(2).

10. In terms of eligibility for access, given the Adaptation Fund will be serving the Paris Agreement, only developing country Parties to the Paris Agreement that are particularly vulnerable to the adverse effects of climate change shall be eligible for funding from the Adaptation Fund. This is consistent with the current arrangement whereby the Adaptation Fund serves the Kyoto Protocol, and only Kyoto Protocol Parties are eligible for access.

Sources of funding

11. Subject to the outcome of the SBSTA negotiations to develop the Article 6(4) mechanism, New Zealand views it as appropriate for the Adaptation Fund to be able to receive a share of proceeds from activities under the Article 6(4) mechanism, if the Fund is to serve the Paris Agreement. Doing so would be consistent with Article 6(6) of the Agreement, which provides that a share of the proceeds from activities under the Article 6(4) mechanism shall be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. It would also avoid creating duplicative architecture to administer this share of proceeds.

12. Given work in SBSTA on Article 6 is ongoing, the APA should not yet prescribe any detail on how the mechanism will contribute to the Adaptation Fund beyond the terms of the Paris Agreement itself.

13. At this stage it is difficult to be explicit about a transition date at which the Adaptation Fund should commence receiving funding from the Article 6(4) mechanism. Provision could be made for the Adaptation Fund to sit under the CMA from 1 January 2021, whilst still benefitting from CDM proceeds until the end of the second commitment period true-up. Much will depend on the Article 6(4) negotiations. New Zealand supports a rapid start-up for the Article 6(4) mechanism, as long as this can be done without risking outcomes with low environmental integrity.

14. New Zealand notes the success the Adaptation Fund has had with meeting its 2016 fundraising goal[1], and views it as appropriate that voluntary contributions continue to be an additional source of funding if the Adaptation Fund is to serve the Paris Agreement.

Relationship to GCF and GEF

15. We note that some Parties are suggesting institutional linkages between the Fund and other elements of the climate finance landscape – for example accreditation of the Adaptation Fund to the GCF and use of the Adaptation Fund to programme GCF resources. New Zealand observes that the different processes and requirements that each Fund has for project applications and approvals and accredited entities count against such linkages. Any institutional linkages between the various Funds are also matters for the Boards of the Funds themselves to determine. Furthermore, work is already under way to encourage complementarity and coherence among the various funds and institutions.

16. Nonetheless, it would be appropriate for the Adaptation Fund Board to enhance relationships with the GCF and GEF Boards, in order for the Adaptation Fund to most effectively serve the Paris Agreement. This could entail a regular dialogue and interaction between the Boards, and greater collaboration across relevant operational areas of work such as readiness support, accreditation, and project/programme identification.

Safeguards

17. A key safeguard to ensure the effective operation of the Adaptation Fund in serving the Paris Agreement will be annual guidance from the CMA. CMA guidance to the Adaptation Fund should take into account the annual reports of the Adaptation Fund Board.

18. Central to facilitating effective guidance from the CMA will be annual input and recommendations from the Standing Committee on Finance (SCF), consistent with the SCF's existing mandate to ensure coherence and coordination in the delivery of climate financing. SCF input into the regular reviews of the Adaptation Fund would also have merit, and could usefully encourage synergies and common considerations between reviews of the Adaptation Fund and the Financial Mechanism. Where possible, an alignment in the timing of the reviews of the Adaptation Fund and the Financial Mechanism would further facilitate effective guidance and operation of the various funds.

19. Another important safeguard to ensure the Adaptation Fund is able to effectively serve the Paris Agreement will be undertaking the outstanding second phase of the independent evaluation of the Adaptation Fund, building on the first phase (January 2015) of the evaluation. New Zealand views an evaluation of the Fund's effectiveness and results as an

[1] As detailed in the Adaptation Fund Board's Decision B.27/36

essential input to any APA deliberations on the Fund's governance and institutional arrangements and operating modalities, and urges the undertaking of the second phase evaluation as soon as possible.

Operating modalities

20. In New Zealand's view, the current operating modalities for the Adaptation Fund as detailed in 1/CMP.3 provide a good basis to work from for the Adaptation Fund to serve the Paris Agreement. Some revisions would be warranted however, for example:

- Updating references and institutional arrangements to reflect the Fund is serving the Paris Agreement and under the authority of the CMA, not the Kyoto Protocol and its CMP (as detailed above under institutional arrangements);
- Replacing references to the CDM and the monetisation of certified emissions reductions with placeholders for share of proceeds from the Article 6(4) mechanism;
- Amending the composition of the Adaptation Fund Board, by removing the references to the Annexes and basing the membership on the UNFCCC regional groups, supplemented with extra representation for vulnerable countries and donors;
- Providing for the confirmation of Secretariat and trustee services on a non-interim basis; and
- Any other matters arising from the second phase of the independent evaluation of the Adaptation Fund.

21. Consistent with our points above, the operating modalities of the Adaptation Fund should also reflect the fact the Adaptation Fund will receive annual guidance from the CMA, following the CMA's consideration of the Adaptation Fund Board's annual report. Likewise, provision should be made for the Standing Committee on Finance to provide input and recommendations to the CMA's guidance to the Adaptation Fund Board.

22. At the point the Adaptation Fund is established under the Paris Agreement and its architecture, it will need to be ensured that existing arrangements and legal relationships with implementing entities and ongoing projects continue seamlessly and remain valid.