**Swiss Submission to the APA**
**on the Adaptation Fund serving the Paris Agreement**
**May 2017**

There are several technical and legal issues, which will have to be resolved before the Adaptation Fund (AF) can serve the Paris Agreement (PA). Below we would like to highlight some of the key issues/questions, which in our view will have to be resolved first. Reflecting the decision 1/CMA.1, paragraph 11, they are structured along the following categories: a) Governance and Institutional Arrangements, b) Safeguards, and c) Operating Modalities.

## 1. Key Questions / Open Issues

### *(a)* ***Governance and Institutional Arrangements***

In our view the AF, as a fund established under the Kyoto Protocol, needs to undergo changes in its legal status and basic governance structure to serve the Paris Agreement. The following questions are crucial and will have to be answered over the course of the next two years.

- Which procedural and legal actions are needed if the AF should serve the PA? Will the Fund have to be legally shifted from the Kyoto Protocol to the PA? If so, which procedural steps would be necessary?

- If it were to be shifted from the Kyoto Protocol to the PA, which body could provide guidance to the AF?
  In our view, the guidance will have to be issued by the CMA, to ensure that the AF appropriately serves the PA and contradicting guidance is avoided.

- Would the AF Board have to be formally re-established under the PA?
  In our current understanding, we believe yes, since governance structure should be in line with the principles of the PA and therefore only Parties to the PA should be part of the AF Board.

- Would there have to be changes in decisions on functions of the AF Board, membership, decision-making, quorum, chairmanship, frequency of meetings, and secretariat?
  As a general sense of direction, the governance of the Adaptation Fund should be in line with principles of the Paris Agreement.

- Which Parties should be supported by the AF?
  The Parties, which have ratified the PA, will not necessarily be the same as the Parties who have ratified the Kyoto Protocol. We clearly believe only Parties who have ratified the PA should receive support from the AF given that the AF will serve the PA.

- Which institution should serve as the trustee for the AF?
  The current trustee has provided very satisfying services. To ensure continuity, we believe the current trustee should be established as permanent trustee.

### *(b)* ***Safeguards***

It is essential that the AF will have safeguards in place, which will be fit for purpose, to ensure the highest possible impact, while avoiding any negative environmental or social effects. Therefore, we believe the AF Board should consider its current policies and review them in light of the entry into force of the PA and ideally align them with the safeguard policies recently approved in other multilateral climate finance funds.

### *(c) **Operating Modalities***

For the AF to serve the PA, it is necessary to analyze the current operating modalities and identify ways to make its modalities more efficient, building on the results of the 3rd review of the AF and the phase II of the outcome evaluation. Parties will have to assess how the operating modalities may have to be adjusted to ensure the highest possible effectiveness and impact of AF projects and programs.

First and foremost a sustainable and innovative resource mobilization modality will have to be established and the complementarity of the AF with other climate finance funds will have to be assured. In addition, the efficiency of the institutional and legal operating mechanisms should be assessed.

- **Resource Mobilization:** How can the AF mobilize resources in a sustainable manner in the near and far future?

  The AF can only serve the PA, if its resources can continue to be sustainably mobilized over a long term period. Therefore, the future resource mobilization of the fund is an important issue that should be addressed. In the past, the AF was sourced by a 2% share of proceeds from the CDM. This innovative source of financing makes the AF unique in the climate finance architecture and in our view the mitigation (market) mechanism established in para. 4 of Article 6 of the PA will provide the AF with sustainable resources in the next years according to para. 6 of Article 6.
  There is an urgent need to prepare the transition of the market mechanisms so that resources can continue flowing to the AF. This means in particular that the modalities and procedures of the new mechanism need to be developed as soon as possible so that the mechanism is operational as early as possible.
  In addition, CDM projects that meet the criteria of the new mechanism could be transitioned into the new market mechanism. Generally speaking, we will have to agree on the details of the innovative funding mechanism over the next two years to ensure a sustainable funding source for the fund.
  A regular replenishment is not an option for the AF, because it is not an operating entity of the Convention and since the establishment of the GCF there is already a sustainably replenished fund in the financing architecture, which provides financing for adaptation. Voluntary funding is not a sustainable way of mobilizing resources.

- **Complementarity of the AF:** We consider the discussion related to the AF serving the Paris Agreement also as an opportunity to look at the whole climate finance architecture and discuss appropriate measures to possibly rationalize it.
  Since the creation of the AF in 2001, the landscape of climate finance, including financing for adaptation, has undergone significant changes. It is therefore indispensable to assess the programming and project complementarity also with respect to scale / funding volumes between the AF and other sources of adaptation finance, especially other multilateral climate funds. The 3rd review of the AF, the 6th review of the Financial Mechanism and the work of the SCF on the complementarity of funds should also be considered in these discussions.

- **Accredited Entities:** Should the legal procedure, which would enable the AF to serve the AF the PA include revisiting the accredited entities, especially in view of safeguard policies (environmental, social, vulnerable groups, indigenous peoples, gender) and fiduciary standards?

## 2. Timeline

Considering the complexity and the vast amount of issues that need to be addressed, the decisions to the above questions should be made in careful consideration over sufficient time. Therefore, it is appropriate to tackle the above questions in conjunction with the overall APA work program and finish their consideration at the earliest in 2018.