Japan's submission on the views on the governance and institutional arrangement, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement

Japan is pleased to provide its views on the governance and institutional arrangement, safeguards and operating modalities for the Adaptation Fund (AF) to serve the Paris Agreement in accordance with Decision 1/CP.22 paragraph 15.

General views

- The AF is expected to continue to play a role on adaptation finance and support under the Paris Agreement.
- In order to respond to the expectation, discussions on the following issues are needed: what the AF can do for the Paris Agreement though landscape of climate finance has changed after the establishment of the Green Climate Fund (GCF); how it can ensure the revenue of the fund taking into consideration of the existing of funds and agencies which similarly provide or mobilize adaptation finance inside and outside the Convention as well as needs of the adaptation; and what kind of elements the AF needs to revise or include in its governance and structural arrangement. The discussions would help the preparatory work move forward and lead us to make the AF serving the Paris Agreement successful.
- The financial sources for the AF may be coming from a share of the proceeds (SOPs) from the mechanism established under Article 6, paragraph 4 of the Paris Agreement. The discussion on the AF, however, should not prejudge the discussions on Article 6, paragraph 4 of the Paris Agreement, and vice versa. On a related point, since current SOPs derive from proceeds of Kyoto Mechanisms, the APA agenda item 8 should not prejudge the discussion at CMP on how current SOPs from Kyoto Mechanisms could be treated if AF serves the Paris Agreement.
- Ensuring revenue is a required fundamental function of a fund. The AF should consider innovative financial instruments such as private finance in order to utilize its strengths under the Paris Agreement.

Issues needed to be clarified

In order to promote the consideration, the following components need to be discussed and clarified. It may be helpful to have the views of the legal team of the Secretariat for discussions such as component (4) of this section.

(1) The role of the AF under the Paris Agreement

Each climate-related fund has its own strengths and comparative advantages, and

maximizing their abilities brings better outcomes in implementing climate change measures. Efficiency and effectiveness of a climate-related fund become more important in addition to scaling up climate finance, since maximizing the use of such funds is crucial in achieving the objective of the Article 2, paragraph 1 (c) of the Paris Agreement.

In order to maximize the role of the AF under the Paris Agreement, the fund itself needs to find a way to enhance overall complementarity and coherence among climate-related funds for implementation of the Paris Agreement, taking into consideration of the changes in landscape of climate finance due to the establishment of the GCF. It is desirable that the AF complements the efforts of operating entities of the Financial Mechanisms of the Paris Agreement, the GCF and the GEF, in the field of adaptation.

Avoiding duplications and enhancing complementarities among funds are important issues and we would like to advance the discussion to maximize the role of the AF.

(2) The financial resources of the AF

Currently, financial resources for the AF are coming from a share of the proceeds (SOPs) from Kyoto Mechanisms, particularly the clean development mechanism (CDM), under the Kyoto Protocol as well as voluntary contribution from Parties of the Kyoto Protocol. Having SOPs as components of its revenue should be continued in order to lead innovative financing in climate change and differentiate itself from other funds. Under the Paris Agreement, financial resources for the Adaptation Fund may be coming from the SOPs from the mechanism established under Article 6, paragraph 4, of the Paris Agreement as well as contribution from governments.

In this regard, the discussion on the AF should not prejudge the discussions on Article 6, paragraph 4, of the Paris Agreement, and vice versa, in order to keep both discussions simple and they are fundamentally irrelevant except for the matters related to the SOPs. On a related point, since current SOPs derive from proceeds of Kyoto Mechanisms, the APA agenda item 8 should not prejudge the discussion at CMP on how current SOPs from Kyoto Mechanisms could be treated if AF serves the Paris Agreement.

The scarcity of the AF financial resources is pointed out at various occasions and there is a discussion that the AF could request the GCF or other funds to finance their projects instead. Relying on other funds' financial resources raises a question of the "raison d'etre" of the AF, because having an ability to manage its own financial flows is a fundamental function of a fund. The AF, as an innovative fund, should consider its revenue structure relying not only on developed country Parties' governmental contributions but other sources such as other Parties' contributions if it serves the Paris Agreement. Moreover, the AF could promote co-financing with other agencies including private sectors in order to use scarce resources efficiently.

(3) Reflecting principles of the Paris Agreement to the AF practices

If the AF serves the Paris Agreement, the principles of the Paris Agreement should be reflected to the AF's governance and modalities.

(4) The relationship between the Kyoto Protocol and the Paris Agreement

We should clarify whether the AF serves only the Paris Agreement or both the Paris Agreement and the Kyoto Protocol since the Paris Agreement has already entered into force. If the latter is chosen, the eligibility of receiving the fund from the AF should be clarified, whether only developing country Parties to both the Paris Agreement and the Kyoto Protocol or Parties to the Kyoto Protocol but not to the Paris Agreement are eligible to receive the fund. Moreover, we should sort out whether the CMP or the CMA gives the guidance to the AF.

(5) Need of Robust Safeguards

Robust environment and social policy is crucial to ensure that the funds to address the adverse impacts of and risks posed by climate change projects and programs supported by the funds do not result in unnecessary environmental and social harms. Since the AF revised its policy in March 2016, some of the national and regional implementing entities may require support for building capacity to manage environmental and social risks. For more effective and efficient adaptation to apply and implement projects, sharing knowledge, and enhancing cooperating among funds are essential.