SUBMISSION BY THE REPUBLIC OF MALTA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

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Valletta, 21/03/2017

Subject: **Views on the governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement (1/CP.22, para 15)**

I. Introduction

1. This submission focuses on which issues need to be addressed and resolved in order to take the decisions regarding the Adaptation Fund envisaged in decision 1/CMA.1.
2. **The Adaptation Fund has come to play an important role in adaptation finance**. It is the only multilateral climate finance channel specifically established to finance concrete adaptation projects and programmes in developing country Parties. It has pioneered "direct access", promoting country-owned and country-driven processes, building capacity and strengthening local institutions. In fact, the AF is already contributing to the operationalization of the adaptation objectives of the Paris Agreement.
3. **The Adaptation Fund is, however, just one piece of the broader adaptation finance landscape**. Financial and technical support for adaptation is channelled via a number of different means including bilateral government agreements, non-governmental organisations and the private sector; as well as a range of multilateral institutions, development banks, funds such as the Green Climate Fund (GCF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and a number of other funds outside the Convention (such as the Pilot Programme for Climate Resilience within the Climate Investment Funds, EU's GCCA/GCCA+, Adaptation for Smallholder Agriculture Program under the IFAD).
4. **Since the creation of the AF in 2001, the landscape of financing for adaptation has evolved significantly**. For instance, the GCF seeks a balance between funding for adaptation and mitigation and has approved, since its operationalization, US$ 428.9 million of projects for adaptation activities. The most significant source of public adaptation finance comes through bilateral assistance programmes. Adaptation-relevant public financing from the EU and its Member States amounted to USD 6.9 bn in finance for adaptation in 2013. This was well over 60 % of all developed country public bilateral adaptation finance contributions. The EU and its Member States are committed to collectively increasing adaptation finance, with a specific focus on the poorest and

particularly vulnerable countries, based on bottom up demands and country own priorities and needs.

5. **The EU and its Member States are and remain committed to adaptation finance**. They support adaptation through various channels and by engaging in adaptation action on the ground. The EU and its Member States are the largest contributors to multilateral funds as well as UNFCCC and Kyoto Protocol funds that support adaptation. As part of this support, EU MS have to date provided around 95% of the voluntary contributions to the Adaptation Fund (AF). The AF surpassed its 2016 resource mobilization target of US$ 80 million at the COP22 climate conference with official announcements of strong new contributions from EU Member States and regions.

6. The Paris decision 1/CP.21, paragraph 59, states that the AF may serve the Paris Agreement. However, for the EU to consider "whether" the Adaptation Fund should serve the Paris Agreement, it also has to consider "how" it could do so. Accordingly, the Marrakech decision -/CMA.1, paragraph 11, states that the AF should serve the Paris Agreement following and consistent with decisions that address governance and institutional arrangements, safeguards and operating modalities.

II. Issues to be addressed by the CMA and CMP decisions

7. The EU considers that at least the following issues need to be discussed through the preparatory work in order to prepare the CMA and CMP decisions envisaged -/CMA.1, paragraph 11:

8. **What function or role could the Adaptation Fund play within the broader climate finance architecture?** The question of the Adaptation Fund serving the Paris Agreement has to be seen within an evolving financial architecture. The Paris Agreement is an opportunity to rationalise the climate finance architecture that has evolved since 1992, with a view to maximising the overall efficiency and effectiveness of climate finance. Specifically, the Adaptation Fund is only one part of the adaptation finance landscape. We need to discuss what role we expect the Adaptation Fund to play for the achievement of the long-term goals on adaptation and finance in the Paris Agreement. What are the lessons learned from the Adaptation Fund? What is the comparative advantage of the AF? What specific niche could it fill to ensure complementarities and avoid overlaps with other funds? How can we make the best use of the experience of the Adaptation Fund (i.e. direct access, focus on smaller project, building climate finance capacity at national and subnational levels, strategic priority on supporting vulnerable communities, mobilising climate finance from innovative sources) in an advanced climate finance architecture?

   Related issues are:

   - **Relevance of the ongoing 3rd review of the Adaptation Fund**: We believe that it is relevant in this context to know whether the Adaptation Fund and its operations are effective and adequate, and if not what changes could be made to improve this. It is also relevant to assess the programming and project complementarity between the AF and other funds.

- **Relevance of the 6th review of the Financial Mechanism:** The 3rd review of the AF and the 6th review of the Financial Mechanism of the Convention are two separate exercises. The 6th review of the Financial Mechanism provides information about how the GCF and the GEF work and also provide adaptation finance. It can provide relevant information on the future structure of adaptation funding as part of the evolving climate finance architecture.
- Coherence and complementarity with other funds.

9. **The role under the Paris Agreement:** The EU does not envisage the AF becoming another operating entity of the Financial Mechanism next to the already existing two operating entities, the GCF and the GEF.
10. **Composition of the Adaptation Fund Board**: The governance of the Adaptation Fund should be in line with general principles of the Paris Agreement.
11. **The Adaptation Fund's relation to the CMA and guidance**: Unlike other funds, the Adaptation Fund is anchored under the Kyoto Protocol and is under the "authority" of the CMP. Under the Paris Agreement, no other financial institution is under the "authority" of the CMA and the CMA provides "guidance" to the operating entities of the Financial Mechanism.
12. **Would the Adaptation Fund *only* serve the Paris Agreement, or would it continue to serve the Kyoto Protocol as well?** If the Adaptation Fund served the Paris Agreement, guidance would have to come from the CMA and the remaining role of the CMP would be unclear.
13. **Eligibility of Parties that have not (yet) ratified the Paris Agreement for funding from the AF**: If the AF only served the Paris Agreement, Parties having ratified the Kyoto Protocol but not yet the Paris Agreement would not be eligible to receive funding from the AF.
14. **What could be the sources of funding for the Adaptation Fund?** The Adaptation Fund was established with unique and innovative source of funding, i.e. a share of proceeds from the international carbon mechanisms under the Kyoto Protocol. For some time these sources have yielded little revenue and the Adaptation Fund has been funded largely through voluntary donor contributions.
15. **Is the internal set-up of the Adaptation Fund fit to serve the Paris Agreement?**
16. **Existing arrangements between the AF and others:** The Adaptation Fund has made many arrangements with others in order to do its work. It is unclear whether these arrangements would still be valid or need to be changed if the Adaptation Fund serves the Paris Agreement.