Views of Argentina, Brazil, and Uruguay on the governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement

Argentina, Brazil and Uruguay welcome the opportunity of submitting their views on the Adaptation Fund (AF) serving the Paris Agreement (PA), its governance and institutional arrangements, safeguards and operating modalities, in accordance with decision 1/CP.22 para15. Argentina, Brazil and Uruguay fully support the draft decision submitted by the G77 and China to APA 1-2 and referenced in the informal note of the APA co-chairs.[1]

AF serving the Paris Agreement

Argentina, Brazil and Uruguay welcome that COP 22 decided that the AF "should serve the Paris Agreement". Indeed, the AF is already serving the PA; in particular contributing to the operationalization the PA provisions on adaptation, finance and capacity building.[2] Given the expertise of the AF in monetizing carbon assets, Argentina, Brazil and Uruguay consider that the AF is the natural vehicle to channel the share of proceeds of units eligible for trading under article 6.2 and the sustainable development mechanism certified emission reductions under article 6.4-6 of the PA, once they become operational.

As the only fund entirely dedicated to adaptation, it has provided funding for 63 concrete adaptation projects/programmes in 53 developing countries in a country-driven, efficient, effective and transparent way. The AF is also providing capacity building for climate adaptation finance through its readiness program. The AF has piloted innovative approaches to climate finance; in particular the direct access modality, including enhanced direct access, streamlined access for small entities, and a pilot program for regional projects. Access to climate finance through national implementing entities (NIEs) is in our view the best way to ensure country ownership.

Governance and institutional arrangements

The first phase of the overall evaluation of the AF (process evaluation) concluded that the AF design is coherent with and complementary to other adaptation efforts under UNFCCC. The evaluation also found that the institutional arrangements of the AF are effective and provide good value for money.[3]

In case the AF were placed under the PA, the governance structure of the AF; in particular, the AFB composition to the PA, may need to be modified following the new situation of the AF. On that

[1] See Reflections note on the second part of the first session of the Ad Hoc Working Group on the Paris Agreement, para 44.

[2] See document FCCC/KP/CMP/2016/2, Addendum, *Added value of the Adaptation Fund for the operationalization of the Paris Agreement: information relevant for the process outlines in paragraphs 59 and 60 of decision 1/CP.21 and paragraphs 8 and 9 of decision 1/CMP.11*. P. 19-23. Decision 2/CMP.12 took note of the information provided by the AFB on the added value of the AF for the operationalization of the Paris Agreement, as contained in the addendum to annex I to the report of the AFB.

[3] Tango International, in association with the Overseas Development Institute. 2015. First Phase Independent Evaluation of the Adaptation Fund. Washington, DC: World Bank. Available: <https://www.adaptation-fund.org/wp-content/uploads/2015/11/TANGO-ODI-Evaluation-of-the-AF_final-report.pdf> [Accessed 28 April 2017].

regard, Argentina, Brazil and Uruguay are willing to discuss how best to accommodate non-KP Parties into the AFB membership.

Another issue that may require consideration is that the AFB operates "under the authority of the CMP" and whether there will be a dual reporting to the CMP and CMA, once the AF formally serves the PA. This situation will need to be revised as well, and in this regard the AFB should now operate "under the authority of both the CMP and CMA".

Argentina, Brazil and Uruguay consider that the main reason for the CMP authority was the origin of the AF main revenue flow when the AF was established, the share of proceeds of the clean development mechanism (CDM). The AFB could continue reporting to the CMP on the share of proceeds under the KP for as long as the AF continues receiving this flow of funding; and report to the CMA on the share of proceeds under Article 6 of the Paris Agreement On other matters, the AFB should report to both the CMA and the CMP.

With regard to guidance in relation to the proceedings, the AFB should operate on the guidance of CMA or CMP whereas the proceedings come from the KP or the AP.

With reference to guidance on other matters, the AFB should receive guidance from the CMA on an annual basis that takes into account the AFB report. In this regard the CMP shall recommend the COP to give such authority to the CMA.

With regard to the situation of the Global Environment Facility as interim secretariat of the AFB, Argentina, Brazil and Uruguay are of the view that this arrangement should be considered under the broader issue of the architecture of multilateral climate finance and will depend on how this matter is finally shaped.

Argentina, Brazil and Uruguay consider that the World Bank should continue as trustee of the AF, taking into account the findings of the first phase of the evaluation.

Safeguards

The AF accreditation process is based in assessing how an entity meets the AF fiduciary standards and the requirements of its environmental and social policy (ESP), which includes 15 principles, as well as those of its gender policy. Accreditation is valid for 5 years, after which an entity needs to apply for reaccreditation.

The AF environmental and social policy was approved in November 2013. The entities accredited before that date were required to demonstrate compliance with the policy when submitting a project/programme proposal for funding. In any case, the assessment of compliance with the ESP 15 principles is performed at the project review stage every time a proposal is submitted.

Nowadays, most of the entities originally accredited before the approval of the ESP have reapplied for re-accreditation, thus meeting the ESP criteria.

Based on an analysis of the AF accreditation requirements (fiduciary standards and environmental and social safeguards) the GCF Board decided to fast-track accreditation of implementing entities already accredited with the AF.

Operating modalities

The overall evaluation found that the AF resource allocation system and project review cycle are efficient. The evaluation also highlighted that the AFB engagement with the civil society has contributed to the efficiency of its procedures. The evaluation has however highlighted the lack of financial sustainability of the AF.[4]

In addition to the overall evaluation first phase, the AF has undergone two reviews by the CMP and the second stage of the overall evaluation (portfolio evaluation), as well as a third review of the AF, are currently underway. The Adaptation Fund is currently undergoing its Third Review, scheduled to be finalized in November, 2017.

CMP decision 2/CMP.12, highlighted the findings of the first stage of the independent overall evaluation of the AF, including that:

- "The Adaptation Fund has pioneered several issues related to adaptation finance and is meeting developing countries' needs, including those related to direct access;"

- "The design of the Adaptation Fund and its operational processes are efficient and largely coherent with guidance under the Convention and national adaptation priorities;"

- "The Adaptation Fund has allowed countries to advance the implementation of Important measures at the national and subnational levels, with links to national policymaking;"

- "The policies adopted by the Adaptation Fund have created a solid foundation for operational success;"

CMP 12 however noted with concern "issues related to the sustainability, adequacy and predictability of funding for the Adaptation Fund based on the current uncertainty on the prices of certified emission reductions, assigned amount units and emission reduction units;"

Besides, a number of studies by think-tanks and CSOs have focused on the AF. These reviews have been positive and highlighted that "…the Fund has made significant progress in terms of transparency, accountability, and integrity policies and procedures."[5] "…the introduction of "direct access" modalities in the realm of climate finance has opened new opportunities to strengthen country ownership and increase the capacity of institutions in developing countries."[6]

The AF when serving the Paris Agreement shall not include any cap per country regarding access to grant financing.

---

[4] Id. p. 61-63.

[5] Lisa Elgers. 2017. Protecting Climate Finance: Progress Update on the Adaptation Fund's Anti-corruption Policies and Practices. Transparency International. Available: <http://files.transparency.org/content/download/720/3088/file/2013_ProtectingClimateFinance_AdaptationFund_EN.pdf> [Accessed: 28 April 2017].

[6] Masullo, I., G. Larsen, L. Brown, and L. Dougherty-Choux. 2015. "'Direct Access' to Climate Finance: Lessons Learned by National Institutions." Working Paper. Washington, DC: World Resources Institute. Available: <https://www.wri.org/sites/default/files/22DIRECT_ACCESS_TO_CLIMATE_FINANCE_LESSONS_LEARNED_BY_NATIONAL_INSTITUTIONS.pdf> [Accessed: 28 April 2017].

Which specific role for the AF under the Paris Agreement?

The question is not whether the AF is suited to serve the PA but which specific role it may play within its framework. This is related to the broader question of the architecture of multilateral climate finance and the complementarity and coherence among the funds. Argentina, Brazil and Uruguay are of the view that the AF can certainly play a defining role therein and complement the operating entities of the PA and the other climate funds that are already serving the PA.

In that sense, the views expressed in the study published by the World Resources Institute (WRI) in March 2017 deserve to be considered: "The AF could continue to support equitable allocation and country ownership by focusing on small- scale adaptation activities" "While programmatic approaches can be important for adaptation, there is still a need for smaller, concrete actions across a wide range of countries. Furthermore, the AF plays an important role in building the capacities and track record of national institutions to undertake adaptation work, and can be a stepping-stone for many national institutions to access the GCF. [7]
In addition, the AFB has taken, since early 2016, steps towards a medium-term strategy that may contribute to define the Fund's specific role even more clearly.

[7] Id., p. 7.