

Submission by the Republic of Gabon on behalf of the African Group of Negotiators (AGN) on Financing for Adaptation/Share of Proceeds (Article 6.2 and Article 6.4 of the Paris Agreement)

The SBSTA Chair has scheduled an **informal technical expert dialogue** on Financing for adaptation / Share of Proceeds under Article 6.2 and 6.4 on 19 April 2021 and has encouraged Parties and groups of Parties to make submissions by 1 April 2021. The topic of Financing for Adaptation/Share of Proceeds is of great concern to the African Group of Negotiators (AGN) who welcomes this opportunity to clarify its views.

Adaptation is an area that is structurally underfunded compared to finance made available for mitigation and in relation to the needs. African countries are among the most vulnerable countries to climate change while having contributed only a fraction of global GHG emissions. It is therefore of utmost importance to mobilize **new and additional funding sources** which structurally support the most vulnerable developing country Parties in adapting to climate change. Raising adaptation finance through a share of proceeds (SOP) is a critical element of Article 6 of the Paris Agreement.

Article 6 paragraph 1 defines the purpose of international voluntary cooperation to allow for higher ambition in Parties' mitigation and adaptation actions. This chapeau extends to all market and non-market mechanisms of Article 6 and clarifies that cooperative approaches under Articles 6.2 and 6.3 are not exempt from contributing to adaptation finance. In operationalizing Article 6, Parties must not fall behind the principle and status quo already agreed in **Decision 1/CMP.8 to extend the SOP to all UNFCCC/Kyoto protocol market-based mechanisms, including the clean development mechanism (CDM), joint implementation and international emission trading.** According to this decision, the CMP decided that for the second commitment period, the Adaptation Fund shall be further augmented through a 2 per cent share of the proceeds levied on the first international transfers of AAUs and the issuance of ERUs for KP's Article 6 projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties (section V para 21). Implementation of the Paris Agreement must not be less ambitious with regard to adaptation finance than the decision 1/CMP.8. In keeping, at least, the same level of ambition, it is the firm view of the AGN that the use of all cooperative approaches **shall** deliver a contribution for adaptation.

There must also be a balanced treatment of international voluntary cooperation under the cooperative approaches (Article 6.2) and the Article 6.4 mechanism. For the Article 6.4 mechanism, a SOP for adaptation will be levied. Mitigation activities must not be treated differently in terms of their contribution to adaptation finance depending on whether they are implemented under Article 6.2 cooperative approaches or the Article 6.4 mechanism. This would otherwise lead to the evasion of the adaptation levy and undermine the functioning of the Article 6.4 mechanism. Putting the burden of an adaptation levy solely on those that do not have the capacity to set up their own cooperative approach but need to or prefer to rely on a centralized mechanism with UNFCCC oversight, would also lead to an unfair and unequitable allocation of the burden. **A disproportionately large share of adaptation finance would then be leveraged from mitigation action taking place in poor countries with low capacities.**

In order to be inclusive, the benefits of Article 6 of the Paris Agreement must be able to accrue to all Parties, in particular those with low historical GHG emissions. These countries have the greatest need for investing in sustainable development while being highly vulnerable to the adverse effects of climate change resulting from GHG emissions that furthered prosperity elsewhere. Many developing countries, particularly LDCs, SIDS and African countries, have participated only marginally in the Kyoto Protocol market mechanisms due to low historical emissions and/or difficulties of accessing to it, and the only benefit some of them have gained is the contribution of the SOP to the financing of adaptation projects through the Adaptation Fund. **Therefore, any resources raised through the SOP should be channelled to the Adaptation Fund to ensure equitable access by all vulnerable developing Parties.**

For the Article 6.4 mechanism, the SOP must be designed efficiently and maximize the proceeds towards adaptation. Important lessons from the CDM must be learned and incorporated into the design of the Article 6.4 SOP. This includes avoiding that more finance is raised for administrative purposes than for adaptation. Under the CDM the administration SOP has led to more than USD 350 million – far exceeding the needs of the administration – whereas funding for adaptation has amounted to only USD 200 million. The skewed allocation is the result of a design flaw of the CDM SOP. Whereas the administration SOP is levied as a monetary fee of USD 0.10-0.20 per certified emission reduction (CER), the adaptation SOP is raised in-kind (2% of issued CERs). The monetary levy proved to be more successful and stable. Even when imbalances became apparent, they could not be corrected due to the rigid nature of the CDM Modalities & Procedures.

For the design of the Article 6.4 SOP, the administrative and adaptation SOP should be levied as a mix of monetary fees and a percentage of certified units to have a balance between stable income and the option to benefit from higher market prices. **The proceeds should cover the costs of the administration of the Article 6.4 mechanism while surpluses should be directed to the Adaptation Fund.** It is also important to build corrective elements into the system to avoid that sub-optimal allocations become locked in. **The SOP should be subject to regular review by the CMA.**

AGN Proposal for Article 6.2

The AGN is of the strong view that starting point for the negotiations should be *Option A of Version 1 of the COP 25 Presidency draft decision from 13 December 11:45 hrs.* This option is unequivocal about the mandatory nature of a contribution to adaptation finance applying to all cooperative approaches and the destination of adaptation finance being the Adaptation Fund. *Option A* furthermore spells out a clear approach for calculating the contribution to adaptation finance that ensures balanced treatment of international voluntary cooperation under Articles 6.2 and 6.4.

Some aspects of this option could be further discussed to see how it could be operationalised in relation to the various activities that will be carried out under the cooperative approaches of Article 6.2.

AGN Proposal for Article 6.4

The AGN is of the strong view that starting point for the negotiations should be the *Alternative approach addressing chapter VII and chapter VIII of Version 1 of the COP 25 Presidency draft decision from 13 December 11:45 hrs.* This option best addresses the above concerns by resulting in a greater amount of adaptation finance than the operationalisations of the SOP contained in *Version 2 and Version 3 of the COP 25 Presidency texts* (5 per cent of A6.4ERs + share of administrative fee levied in excess to administrative needs compared to 2 per cent of A6.4ERs).

This option could also be further discuss based on the lessons learned from the CDM.