

Least Developed Countries Group on Climate Change

31st March 2021

Submission to the SBSTA Chair by the Kingdom of Bhutan on behalf of the Least Developed Countries Group:

Financing for adaptation/Share of Proceeds (Article 6.2 and Article 6.4).

The LDCs welcome the opportunity to provide their views on the matter of *Financing for adaptation/Share of Proceeds (Article 6.2 and Article 6.4 of The Paris Agreement)*, to be discussed under the Informal Technical Expert Dialogue scheduled for 19th April 2021.

Adaptation has been at the heart of discussions for the developing countries long before the Paris Agreement. Adaptation needs are chronically and tragically underfunded. With Least Developed Countries the most vulnerable to the impacts of climate change, it is vital, as a matter of not only equity, but survival, that funding for adaptation be predictable, certain and sufficient to needs.

Article 6 establishes a critical revenue stream for adaptation. The Share of Proceeds rule is a critical element for the LDC Group. This **mechanism is additional to, and cannot depend on or reduce the need for, other sources of support for adaptation.**

The topic of 'Financing for adaptation/Share of proceeds (Article 6.2 and Article 6.4)', suggests that there is some doubt over the issue, the LDC group strongly rejects this. Article 6 Paragraph 1, states that the purpose of international voluntary cooperation is to allow for **higher ambition** in mitigation and adaptation, and to promote sustainable development and environmental integrity. It is consistent with these goals to extending them to all mechanism under the article. This is repeated in different forms throughout not only the article (Article 6 paragraph 2 promotes these same values, with article 6 paragraph 6 and paragraph 8 both explicitly incorporating adaptation) but the Paris Agreement and beyond. SoP applies to both Articles 6.2 and Article 6.4. This is consistent with previous practice, as under the Kyoto Protocol decision 1/CMP.8 extended SoP to all three market-based mechanisms. Since the Paris Agreement was adopted, global emissions have increased, increasing the need for both mitigation and adaptation ambition. Delivering a contribution for adaptation must be part and parcel of any and all mechanisms going forward.

The insistence on application of SoP to both 6.2 and 6.4 goes beyond equity. It is also a practical issue. While there is no question that a SoP will be levied when using the central mechanism elaborated upon in Article 6.4, treating activities under article 6.2 differently would lead to a preference for Article 6.2 cooperative approaches among buyers aiming to save money by avoiding a contribution to adaptation through this beneficial levy -- which is specifically designed to assist particularly vulnerable developing countries in an element of solidarity. Ironically, the countries most able to avoid this beneficial levy, if 6.2 approaches were excluded from SoP, would be those countries wealthy enough to establish their own mechanisms and most able to contribute to a solidarity fund

for adaptation. **The LDC group requires that SoP for adaptation under both 6.2 and 6.4 be delivered to the Adaptation Fund.**

With respect to the scale of the SoP applied, a recent analysis commissioned for the LDC Group has considered the quantitative implications of different percentage options for SoP. This analysis has found that adaptation revenues would be materially higher at higher SoP levels, with the increased credit cost borne by credit buyers, and without markedly affecting the operation of the mechanism. The higher the percentage for SoP, the higher the revenues raised for adaptation, for each option tested. This analysis and other technical inputs should inform policy decisions on the mechanism.

The delivery of the SoP should be created at the issuance of units under both 6.2 and 6.4. Further technical work will be required to establish the precise mechanism for the delivery of SoP under 6.2. We do not believe that this would be too difficult to achieve and should recognise that the proceeds from each first transfer of units under 6.2 should deliver a SoP.

Finally, lessons need to be learned from the Kyoto Protocol in order to avoid the mistakes of past arrangements in connection with the share of proceeds for administrative expenses, whereby the SoP for administration allowed for significantly more funding than was created by the SoP for adaptation. There is a need to ensure that a repetition of the administration-heavy CDM not be repeated. This means that while administrative costs need to be covered, the Adaptation Fund must be the main recipient of support under Article 6.6, with the relationship between elements regularly reviewed.