SUBMISSION BY PARAGUAY ON BEHALF OF THE AILAC GROUP OF COUNTRIES COMPOSED BY CHILE, COLOMBIA, COSTA RICA, HONDURAS, GUATEMALA, PANAMA, PARAGUAY AND PERU

FINANCING FOR ADAPTATION THROUGH ARTICLE 6

REFERENCE: SBSTA chair invitation

Introductory Remarks

1. Following the invitation of the SBSTA chair, Mr. Tosi Mpanu Mpanu, the AILAC group of countries welcomes the opportunity to provide its views on financing for adaptation derived from the implementation of Article 6 of the Paris Agreement.
2. Article 6, paragraph 1 of the Paris Agreement recognises voluntary cooperation between Parties to allow for higher ambition in both mitigation and adaptation and to promote sustainable development and environmental integrity in a manner that catalyses collective action. Guidance and rules for the implementation of Article 6 must therefore embed how cooperative approaches and mechanisms will make a significant contribution to mitigation in the short and long term in a manner consistent with the achievement of the 1.5ºC target but also how they will impact adaptation action and more specifically, the delivery of finance for adaptation. Hence, ambition in Article 6 cooperative approaches relates to both mitigation and adaptation.

The need to increase and enhance financing for adaptation through Article 6

3. In the most recent reports presented by the OECD and OXFAM in late 2020, it was clearly outlined that adaptation is being underfunded in the overall scheme of climate finance (with a ratio of 21-25% financing for adaptation in front of 66-70% for mitigation finance) and that there is an urgent and imperative need to scale up adaptation finance so that the current adaptation finance gap is closed. Furthermore, according to the 2020 UNEP Adaptation Gap Report, annual adaptation costs are expected to reach USD 140-300 billion in 2030 and USD 280-500 billion in 2050.
4. Developing countries are highly vulnerable to the adverse effects of climate change and adaptation planning, preparedness and action are quite expensive and risky for conventional sources of financing. In Latin America and the Caribbean alone, it is estimated that 6–8% of the population live in areas that are at high or very high risk of being affected by coastal hazards (IPCC SR Ocean and Cryosphere, 2019) and also global warming is projected to reduce the extent of tropical rainforest in Latin America, notably Central America, which can lead to a large replacement of rainforest by savannah (IPCC SR1.5, 2018). Hence, we, in the developing world, face a huge challenge to attract investments for resilient infrastructure and implementing adaptation actions in a scale that is sufficient and adequate and international cooperation is fundamental to address this challenge.

5. This adaptation finance gap will need to be closed through a variety of sources, including by public and grant-based resources from developed countries to developing country Parties (as per Articles 9.1, 9.3 and 9.4 of the Paris Agreement), by increasingly making all financial flows -public and private, domestic and international- consistent with climate-resilient development (as per Article 2.1c of the Paris Agreement) and by looking at innovative sources of funding, out of which, Article 6 could play a role (as per Article 6.1 of the Paris Agreement).

6. For AILAC countries, the Adaptation Fund has been an important source of funding to address project-level needs regarding adaptation in specific sectors, in particular due to its unique capacity to provide direct access and despite the limited amount of financing that, until recently, was available through the AF for each developing country. From its creation in 2010, the Adaptation Fund has allocated USD$ 778 million for climate change adaptation and resilience projects and programmes, including 118 concrete localized adaptation projects in the most vulnerable communities of developing countries around the world with nearly 28 million total beneficiaries. Yet, the SCF´s latest biennial assessment, reports that global climate flows added up to $681 billion in 2016. This means that the Adaptation Fund represents only 0.11% of global climate flows.

7. AILAC is looking forward for the replenishment of the Adaptation Fund once the Article 6.4 mechanism is up and running but we are also interested in collectively defining how Article 6 as a whole can play a role towards closing the adaptation finance gap and enhancing the Adaptation Fund in becoming a central entity to foster adaptation action throughout the developing world. In consequence, for AILAC it is essential to continue exploring concrete options to materialize adaptation financing through cooperative approaches under Article 6.2. With this, not only the contribution of article 6 to adaptation financing could be strengthened, but there would also be a more balanced approach between instruments derived from this article.

8. On the other hand, as other groups and Parties have suggested, the design of the share of proceeds in the 6.4 mechanism should guarantee that the collected resources cover administrative costs but that, in turn, most of the resources go towards adaptation financing. In this sense, a balanced combination between a monetary fee and an in-kind levy should also be designed to meet financing needs better. Likewise, the share of proceeds is dynamic over time, thus responding to changes in market conditions.

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