# Supporting adaptation through Article 6 of the Paris Agreement

**ECBI-PCR workshop**

Zoom
21 October 2021

# Finance for adaptation through market-based cooperation

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21 October 2021

# Lessons learned from the KP

- **SoP → created as an alternative to an international tax under the KP**
- **Initially levied on the CDM, later also on Joint Implementation (JI), and International Emissions Trading (IET), to:**
  - cover the administrative costs of international oversight by the stakeholders engaged in, and benefitting from, market-based cooperation.
  - raise funds for adaptation to assist developing countries

**Administrative share of proceeds**

- directed towards administration expenses of the UNFCCC Secretariat
- monetary charge levied *ex ante* and at credit issuance
- Revenue: USD 356 million

**Adaptation share of proceeds**

- directed towards the Adaptation Fund
- in-kind charge (2 percent of issued CERs)
- Revenue: USD 200 million

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# Lessons learned from the CDM

- **Unexpected funding generated by the administrative SoP and adaptation SoP.**
  - Administrative SoP >> Adaptation SoP
  - Insufficient funding for adaptation and accumulation of a surplus of collected administration funding
  - **Key lesson: ensure both upwards and downwards flexibility of an administrative SoP**

- **Sales revenues of CERs collected under in-kind SoP are highly dependent on market price, and accumulating CER reserves can be risky.**
  - World Bank (Adaptation Fund trustee) accumulated a significant CER reserve during the period of high CER prices that was only sold after prices had collapsed.

- **Monetisation guidelines for sale of CERs by the World Bank were too inflexible to prevent losses.**

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# Extension of SoP to Joint Implementation and International Emissions Trading

- **Adaptation SoP extended to JI and IET in second commitment period of the KP**
  - Proposed by developing countries (e.g., Argentina, China, Colombia and Costa Rica)
  - **Unchanged**: Adaptation SoP maintained at 2% of CERs issued; CDM project activities in LDCs to be exempt from SoP
  - **New**: For the 2nd commitment period, further 2% share of the proceeds to be levied on the first international transfers of AAUs and the issuance of ERUs for Article 6 [JI] projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties for the Adaptation fund

# Levying SoP in cooperative approaches under Article 6.2

- **Developing country Parties pushed for SoP to be extended to Article 6.2 at COP24**
  - Argument → creates a balance between the various mechanisms and avoiding perverse incentives to prioritise one mechanism over another
  - Opposed by industrialised countries → argue that the bottom–up nature of A6.2 and the diverse approaches applied can make collection of SoP difficult (particular resistance for linked ETS)
  - Compromise at COP25 → voluntary "commitment to contribute" to adaptation finance; was not acceptable to all
- **Key considerations:**
  - If the SoP were a monetary contribution with flexibility on how to levy it, how should it be levied?
  - Avoidance of double levying of SoP for the 6.4 mechanism and resulting 6.2 transfers
  - Levy of SoP on ITMOs for 'other international mitigation purposes' and 'other purposes'?
  - Levying SoP for meeting administrative costs in cooperative approaches

# Levying SoP from Article 6.4 mechanism

- **Combination of monetary and in-kind SoP**
  - Strike a balance between stable income and the opportunity to benefit from high credit prices
  - Limits burden on project developers and reduces transaction costs
  - Level of in-kind SoP must be considered in the context of cancellations of ITMOs to generate OMGE (and implications for domestic use of A6.4M be explored)
  - administrative expenses should be reassessed on a regular basis e.g., biannually
- **Levying SoP and the link to corresponding adjustments**
  - **Question:** how to reconcile SoP provisions with usage patterns of A6.4ERs?
  - Any in-kind levy of Article 6.4 credits for sale by the World Bank for the AF should ensure that the credits have a corresponding adjustment, to facilitate monetisation.

# SoP beyond CDM and Article 6

## Sub-national Contributions: Quebec in Paris

“Paris, 5 December: Today the ***Chair of the Least Developed Countries (LDCs) Group welcomed a pledge from the Quebec government of $ CAD 6 million to the Least Developed Countries Fund (LDCF)***.”[LDC Group Press Release]

PARIS2015
CONFÉRENCE DES NATIONS UNIES SUR LES CHANGEMENTS CLIMATIQUES
COP21·CMP11


- Pledges by the city of Paris ($1.3m) and three Belgian sub-nationals ($17.1m) to the GCF

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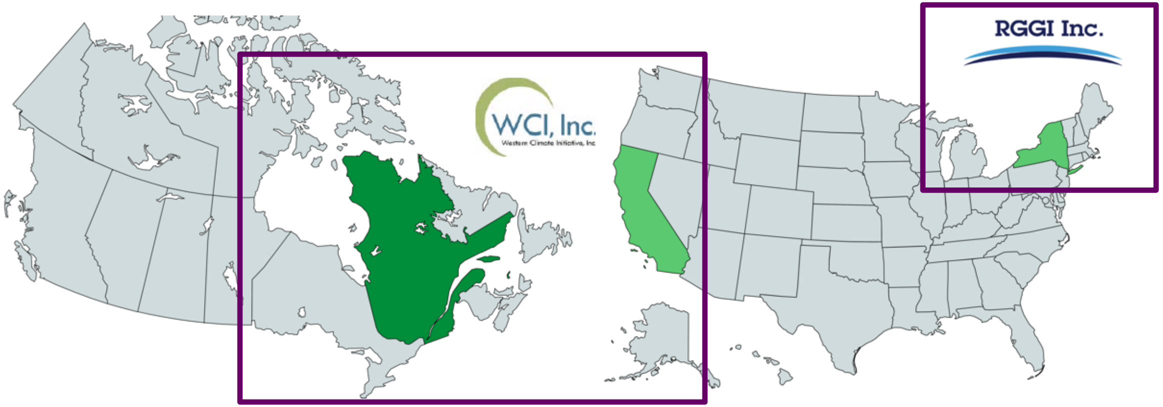
# Shares of Sub-national Proceeds: The North American Potential




| 2 percent share of proceeds | |
|---|---|
| • Quebec | $10 million/yr |
| • California | $ 125 million/yr |

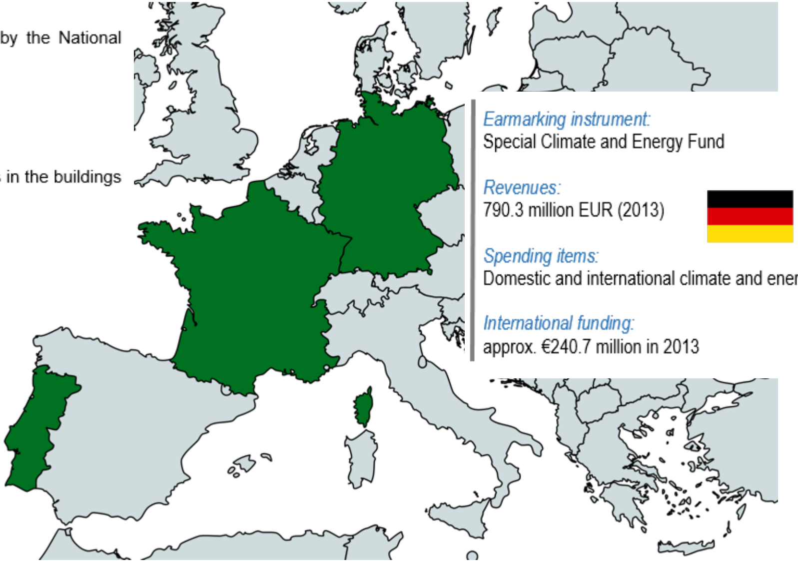
# Shares of National Proceeds: European Potential

*Earmarking instrument:*
Earmarking under Finance Bill, for use by the National Agency for Housing

*Revenues:*
219.2 Million EUR (2013)

*Spending items:*
Domestic energy efficiency improvements in the buildings sector

*International funding:*
Nil



*Earmarking instrument:*
Special Climate and Energy Fund

*Revenues:*
790.3 million EUR (2013)

*Spending items:*
Domestic and international climate and energy projects

*International funding:*
approx. €240.7 million in 2013

*Earmarking instrument:*
Portugal's Carbon Fund

*Revenues:*
72.8 Million EUR (2013)
~ 97% spent on domestic and international climate action

*Spending items:*
Domestic mitigation, adaptation and R&D; and co-operation with developing countries

*International funding:* equivalent to 1% of total international climate finance from EU ETS; focus generally on renewable energy

14.3% (€240.7m) of earmarked revenue, goes to international climate and energy purposes

2 percent of the total allowances for 2021-30 under the EU ETS amount to 650 million allowances, when monetized in equal annual amounts at the current allowance price would raise ***€4 billion p.a., thus raising €80 million p.a.***

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## Reaction from Panelists

- MJ Mace, AOSIS
- El Hadji Mbaye Diagne, AGN/Senegal

# Questions/discussion

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# Promoting adaptation finance through the Article 6.8 work programme

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# History of negotiations on Non-Market Approaches under Art. 6.8

- **Non-market approaches have a long history in UNFCCC negotiations**

COP 16 (2010): Parties agreed to consider non-market mechanisms; since 2012 under SBSTA

NMAs discussed in parallel to FVA and M&P for the NMM

October 2013: Joint workshop on FVA, NMAs and NMM. Definition of elements of a work programme on NMAs

COP 19 (2013): some Parties advocated for NMAs to be integrated into the FVA

COP21: NMAs are included in Article 6 of the PA

- **What is often forgotten: Article 6 explicitly recognises non-market based forms of international cooperation (NMAs)**
  - **Article 6.8: NMAs are to be integrated, holistic and balanced but not defined clearly**
  - **Article 6.9: Establishes a framework for NMAs**

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# History of negotiations on NMAs between Paris and Glasgow

- Objective and role of the work programme
  - Some Parties fear a duplication of initiatives and instruments
- What concrete NMAs the work programme could look at?
  - Specific proposals: ABM, JMA mechanism, EBI
- Three central issues in negotiations
  - Definition of NMAs
    - Unclear, no consensus whether it should be financial or coordinative approaches
  - Structure and governance of the framework
    - Permanent or non-permanent governance structure?
    - Facilitative mechanism to mobilise finance for NMAs and a coordinative function for other UNFCCC bodies? (LMDCs)
    - Bottom-up, Party driven process with voluntary engagement and lessons sharing
  - Objectives, modalities and instruments of the NMA work programme
    - How to promote NMAs? With what objective and what resources?
- Industrialized countries fear finance negotiation spillover
- Bolivia (and some others) want balanced outcome

# Key approaches to Art. 6.8 as per current status of negotiations

## Definition of NMAs

- **Approaches to international cooperation**
- **Identified by participating Party**
- **Not include international transfer of mitigation outcomes**
- **Contribute to NDC implementation**
- **Ambition increase and exploitation of synergies**

## Modalities and activities to promote NMAs

- **Development of tools (e.g. web-based platform)**
- **Sharing of information**
- **Workshops and meetings**
- **Coordination with relevant bodies**

## Establishment of an NMA forum

- **Govern framework and implement work programme**
- **Meeting twice a year**
- **1-year review after 4 years implementation: consider whether new institutional arrangements are needed**

# Links to adaptation

## Contribution of Article 6.8 to Article 7 (Adaptation)

Support the submission process of adaptation information

Enhancement of countries' capacities to prepare and implement adaptation communications through the development of methodologies as well as vulnerability assessments

Support approaches to resilience and approaches that initiate and guarantee a just transition

Development and testing of methodologies to quantify mitigation co-benefits of adaptation action and economic diversification plans that contribute to mitigation outcomes according to Article 4.7

# Links to adaptation – Bulk Purchasing

- International bulk purchasing NMA could drive down the cost of climate technologies and accelerate their diffusion, thereby transforming an economic sub-sector
- Potential benefits of Article 6.8 institutional architecture
  - Provides entry point for LDCs
  - Allows for information and knowledge sharing
  - Enables access to existing financial support
- Example: UJALA LED purchasing programme in India
- Other applications: cooling equipment (access to green cooling), co-benefits with Montreal Protocol Kigali Amendment implementation and high SD impact


# The Adaptation Benefits Mechanism

- ABM: results-based model aiming at leveraging new and additional public and private finance for adaptation
  - ABM will certify benefits of adaptation activities based on approved methodologies: "Certified Adaptation Benefits" (CABs)
    - CABs are not tradable!
  - Purchase agreement to be concluded between public financial institutions, CSR actors, philanthropies and project developers, specifying the fixed payments for CABs, the volume and delivery schedule

  ⇒ Contribute to de-risking adaptation investments, enable pre-finance of adaptation projects
- ABM Executive Committee:
  - Approves methodologies, defines activity cycle, oversees third party auditors
- Pilot phase 2019-2023 supported by AfDB
  - First methodology has been submitted

# Lessons from the past for design of the Art 6.8 work programme

- Precedent: Paris Committee on Capacity Building (PCCB)
- PCCB targets
  - Strategic approach to capacity building
  - Engagement with stakeholders
  - Platform for coordination of capacity building exercises
- PCCB achievements
  - Dialogue process with civil society actors highly appreciated by the latter
- PCCB challenges
  - Lack of financial resources
    - Platform exists but cannot be updated in a timely manner
  - Unclear place in the universe of financing (e.g. GCF) and capacity building (e.g. CTCN, UNDP, GIZ, … …) institutions
  - Dependent on willingness of capacity building finance and technical assistance providers to take PCCB seriously

➢ Work programme needs sufficient buy-in by key governments and institutions to be seen not as competition but facilitator

## Reaction from Panelists

- Rene Orellana, Bolivia
- Gebru Jember, LDCs

# Questions/discussion

# Thank You!

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