



ADAPTATION FUND

AFB/B.41/9  
14 September 2023

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Adaptation Fund Board  
Forty-first meeting  
Bonn, Germany, 10–13 October 2023

Agenda item 10 c) (iii) and (iv)

**ARRANGEMENTS FOR THE TRANSITION OF THE  
ADAPTATION FUND FROM THE KYOTO PROTOCOL TO THE  
PARIS AGREEMENT**

## I. Background

1. In Katowice, Poland in December 2018, it was decided that the Adaptation Fund (the Fund) shall serve the Paris Agreement under the guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) with respect to all matters relating to the Paris Agreement, effective 1 January 2019, and that the Fund shall exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available to the Adaptation Fund (the Fund). The relevant decisions are as follows:

*The CMA, [ . . . ]*

1. **Decides that the Adaptation Fund shall serve the Paris Agreement under the guidance of, and be accountable to, the CMA with respect to all matters relating to the Paris Agreement, effective 1 January 2019, subject to the decision on this matter made by the CMP;**
2. *Recommends that the CMP decide that the Adaptation Fund will continue to be financed by the activities under Articles 6, 12 and 17 of the Kyoto Protocol;*
3. *Also recommends to the CMP that the Adaptation Fund shall exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available;*
4. *Invites the CMP to ensure that developing country Parties and developed country Parties that are Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board;*
5. **Decides that, when the Adaptation Fund serves the Paris Agreement, it shall be financed from the share of proceeds from the mechanism established by Article 6, paragraph 4, of the Paris Agreement and from a variety of voluntary public and private sources; [ . . . ]**

*(Decision 13/CMA.1)*

*The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), [ . . . ]*

1. *Takes note of decision 1/CMA.1, whereby the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) decided that the Adaptation Fund shall serve the Paris Agreement under the guidance of, and be accountable to, the CMA with respect to all matters relating to the Paris Agreement, effective 1 January 2019;*
2. **Decides that the Adaptation Fund shall exclusively serve the Paris Agreement and shall no longer serve the Kyoto Protocol once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available;**
3. **Also decides, pursuant to paragraph 2 above, that the Adaptation Fund shall continue to receive the share of proceeds, if available, from activities under Articles 6, 12 and 17 of the Kyoto Protocol;**
4. **Further decides to ensure that developing country Parties and developed country Parties that are Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board; [ . . . ]**

*(Decision 1/CMP.14)*

2. At the Glasgow Climate Change Conference in November 2021, the CMP 16 and the CMA 3 decided to confirm that (i) developing country Parties to the Paris Agreement that are particularly vulnerable to the adverse effects of climate change are eligible for funding from the Adaptation Fund (the Fund); and (ii) Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board (the Board).<sup>1</sup>

3. At the Sharm el-Sheikh Climate Change Conference in November 2022, a number of decisions relating to and/or referring to the Adaptation Fund were made by the CMP 17, CMA 4 and COP at its twenty-seventh session (COP 27). These include: CMP 17 decisions on *the Report of the Adaptation Fund Board for 2022*,<sup>2</sup> *fourth review of the Adaptation Fund*,<sup>3</sup> and *Guidance relating to the Clean Development Mechanism (CDM)*<sup>4</sup>; CMA 4 decisions on *Matters relating to the Adaptation Fund, Rules*,<sup>5</sup> *Modalities and Procedures for the Mechanism Established by Article 6.4 of the Paris Agreement*,<sup>6</sup> *Matters Relating to the Work Programme Under the Framework for Non-Market Approaches Referred to in Article 6.8 of Paris Agreement*,<sup>7</sup> *Matters relating to the Least Developed Countries*,<sup>8</sup> and *Sharm el-Sheikh Implementation Plan*.<sup>9</sup>

4. At its fortieth meeting in March 2023, the Board considered Adaptation Fund related decisions taken by the CMP 17 and CMA 4 and document AFB/B.40/8 and its annex and decided:

(a) To request the secretariat to;

- (i) Commission an independent review of the Environmental and Social Policy of the Adaptation Fund (ESP) with a view to updating the ESP;
- (ii) Prepare a proposal for an update of the ESP as necessary in consultation with relevant stakeholders of the Adaptation Fund;
- (iii) Present the output referred to in paragraphs (a)(i) and (a)(ii) at its forty-first meeting for the Board's consideration;

(b) To request the secretariat to prepare a document with options for a policy on safeguarding against sexual exploitation and abuse and sexual harassment (SEAH) and present it at its forty-first meeting for the Board's consideration;

(c) To request the secretariat to continue consultations with the secretariat of the United Nations Framework Convention on Climate Change, the trustee and any other relevant stakeholders with a view to the timely preparation of the arrangements for the transition of the Adaptation Fund from the Kyoto Protocol to the Paris Agreement, as per decision 1/CMP.14, paragraph 2, and report on the status of the work to the Board at its forty-first meeting;

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<sup>1</sup> [Decision 3/CMP.16](#), paras. 6 and 7 and decision 13/CMA.3, paras. 7 and 8.

<sup>2</sup> Decision 4/CMP.17.

<sup>3</sup> Decision 5/CMP.17.

<sup>4</sup> Decision 2/CMP.17.

<sup>5</sup> Decision 18/CMA.4.

<sup>6</sup> Decision 7/CMA.4.

<sup>7</sup> Decision 8/CMA.4.

<sup>8</sup> Decision 11/CMA.4.

<sup>9</sup> Decision 1/CMA.4.

(d) To request the secretariat and the trustee to continue consultations with the secretariat of the United Nations Framework Convention on Climate Change and any other relevant stakeholders with a view to the timely development of a strategy on monetization of Article 6, paragraph 4, emission reductions (A6.4ERs) and to report on the status of the work to the Board at its forty-first meeting.

(Decision B.40/80)

5. In response to Decision B.40/80, paragraph (c), the secretariat has continued consultations with the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the trustee and other relevant stakeholders with a view to the timely preparation of the arrangements for the transition of the Fund from the Kyoto Protocol to the Paris Agreement, as per decision 1/CMP.14, paragraph 2. In response to Decision B.40/80, paragraph (d), the secretariat and the trustee has continued consultations with the secretariat of the UNFCCC with a view to the timely development of a strategy on monetization of Article 6, paragraph 4, emission reductions (A6.4ERs).

6. This document is prepared with a view to reporting to the Board on the status of the work in accordance with Decision B.40/80, paragraphs (c) and (d) and is not intended to influence or prejudge any future decisions by the Parties related to the Fund or its Board.

## **II. Arrangements for the Fund's transition from the Kyoto Protocol to Paris Agreement**

7. In accordance with decisions 13/CMA.1 and 1/CMP.14, the Fund is still in transitional period during which the Fund serves both the Kyoto Protocol and the Paris Agreement. During the transitional period, the Fund and its Board remained under the authority of the CMP, while they remain under the guidance and accountable to the CMA with respect to all matters relating to the Paris Agreement.

8. Decision 1/CMP.14, paragraph 2, states that the Adaptation Fund shall exclusively serve the Paris Agreement and shall no longer serve the Kyoto Protocol once the share of proceeds under the Article 6.4 of the Paris Agreement becomes available. In this regard, the development of the Paris Agreement Art.6.4 mechanism is closely linked to the Fund's transition from the Kyoto Protocol to the Paris Agreement.

9. With respect to the matter of Adaptation Fund Board membership, CMA4 reiterated decision CMP16, paragraph 7, which confirmed that Parties to the Paris Agreement are eligible for membership on the Board. It also requested the Subsidiary Body for Implementation (SBI) to continue its consideration of matters relating to membership of the Board, as needed, in view of the Adaptation Fund's transition to exclusively serving the Paris Agreement.<sup>10</sup> At its 58<sup>th</sup> session in June 2023, the SBI agreed to the Chair's proposal to defer consideration of the matters relating

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<sup>10</sup> Decision 18/CMA.4, paras. 17–18.

to the Adaptation Fund including the matter of the Adaptation Fund Board membership to its 59<sup>th</sup> session (December 2023).

10. The arrangements for the Fund's transition to the Paris Agreement would involve, among others, the amendments to the following instruments of the Fund:

- 1) Terms and Conditions of the trustee services to be provided by the World Bank as the interim trustee (T&Cs) (last amended in 2019);
- 2) Institutional arrangement (MoU) with GEF for secretariat services to the Board (last amended in 2019);
- 3) Rules of the Procedure of the Adaptation Fund Board;
- 4) Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund (last amended in October 2022);
- 5) Strategic Priorities, Policies, and Guidelines of the Adaptation Fund (SPPG) (last amended in October 2022)

**1) *Terms and Conditions of the trustee services to be provided by the World Bank as the interim trustee***

11. The terms and conditions of the trustee services (T&Cs) to be provided by the World Bank as the interim trustee were developed in close consultation among the Adaptation Fund Board and the World Bank, then approved by way of decisions of the CMP and the World Bank respectively. The T&Cs were first adopted by decision 1/CMP.4 and agreement by the World Bank in 2009, and have been since amended four times, by the same approach.<sup>11</sup> At the time of the original CMP decision in 2009 (1/CMP.4), the Board had not yet been conferred with legal personality and could therefore not enter into a contract or other legal arrangement with the World Bank.

12. The current T&Cs<sup>12</sup> was amended and adopted in 2019, and unless otherwise agreed in the same manner, i.e., by CMP decision and concurrence of the World Bank, or terminated in accordance with the T&Cs, the T&Cs will remain effective. The T&Cs and any amendments to the T&Cs become effective and constitute an agreement between the CMP and the World Bank upon decisions by the CMP and the World Bank to approve and accept the T&Cs or any amendments to the same.

13. The current T&Cs provide authorization to the Trustee to act as an agent of the CMP to monetize carbon assets that have been allocated to the Share of Proceeds for the Adaptation Fund at the Clean Development Mechanism. Under the T&Cs, the Board provides guidance to the Trustee on day-to-day activities of the Fund, e.g. on the process used by the Trustee for

<sup>11</sup> Amendment of the T&Cs were adopted by CMP by decisions 5/CMP.6, 1/CMP.9, 1/CMP.10 and 3/CMP.15 (2019).

<sup>12</sup> Annex I to the addendum to the 2019 report of the Adaptation Fund Board (FCCC/KP/CMP/2019/4/Add.1–FCCC/PA/CMA/2019/2/Add.1, annex). The latest T&Cs is available at <https://www.adaptation-fund.org/generic/terms-and-conditions-of-services-to-be-provided-by-the-wb-as-trustee-for-the-af/>.

monetization of carbon assets (CERs), processing donations from Parties, transferring funds to Implementing Entities, reporting, and other services. In this respect, authorization to transfer CERs from the Adaptation Fund Share of Proceeds at the Clean Development Mechanism (CDM) to buyers of the CERs derives from the arrangement with the CMP (the Terms and Conditions), not from instructions, direction or additional guidance from the Adaptation Fund Board. Insofar as the Fund Share of Proceeds are considered assets of the CMP, any decision by the CMP vis-à-vis the Adaptation Fund would need to consider how these assets would be transferred, disposed of, or otherwise handled by the CMP.

14. The trustee is of the view that if a Share of Proceeds from Paris Agreement carbon assets are allocated to the Adaptation Fund and the Parties and Adaptation Fund Board request that the Trustee also act as an agent to monetize these carbon assets, such authorization will need to be provided to the Trustee by the appropriate body. In addition, if the procedures, regulatory and other implications of monetizing such assets remain unknown, it would not be possible to include them in a revised T&Cs until this due diligence has been undertaken. Prior to the monetization of CERs, the Trustee undertook detailed due diligence on the tax, regulatory and other implications of CER monetization by IBRD; similar due diligence was performed with respect to monetization of AAUs and ERUs when such assets were added to the AF's Share of Proceeds. Guided by the need for a detailed due diligence and experience with current Share of Proceeds from CDM experience, the Trustee will be able to conduct such due diligence on the implications of monetizing new carbon assets only when further details are available on the nature and characteristics of these new carbon assets.

15. Regarding the disposal of remaining AF carbon assets (CERs in the CDM Share of Proceeds), the CMP 17 made the following decision, but the CDM Executive Board has not started the work yet and may start this work in 2024 in the view of the secretariat of the UNFCCC.

*The CMP 17,  
[ . . ]*

*11. Requests the Executive Board, in coordination with the Supervisory Body and taking into account the timelines for implementing the mechanism registry and any relevant future decisions of the CMP and the CMA, to*

- (a) Develop and implement a procedure for project participants and Parties holding eligible certified emission reductions in the clean development mechanism registry, **as well as the Trustee of the Adaptation Fund (For transfers of eligible certified emission reductions from the Adaptation Fund account)**, to request the transfer of such certified emission reductions to the mechanism registry, noting that such project participants, Parties **and the Trustee of the Adaptation Fund** shall provide, in their transfer requests:*
- (b) Develop and implement a procedure that includes the following steps:*
  - (i) Providing to the host Party written notice of the request for transfer;*

- (ii) *Effecting the transfer if no written objection from the host Party is received within a time frame to be specified by the Executive Board;*

**(Decision 2/CMP.17)**

16. In this regard, new carbon assets under Article 6, paragraph 4, emission reduction (A6.4ERs) are 'not available' yet, and an established mechanism for the disposal of the remaining Adaptation Fund's carbon assets under CDM is not yet developed. It would be, therefore, important to take note of the implication with respect to: (i) continuation of the current authority from the CMP to permit the Trustee to act as agent of the CMP for the monetization of the Fund's CERs, and (ii) establishing a new authority from the CMA for the trustee to monetize any new Fund's carbon assets arising from the Paris Agreement.

17. Accordingly, the trustee suggests a two-phases approach to prepare for the Fund's transition to the Paris Agreement, in order to ensure the continuity of operations supported by the trustee:

- **Continue consultation among the trustee, the Board Secretariat and the UNFCCC Secretariat on the timing of availability of A6.4ERs and their nature:** this will ensure that the trustee continues to stay engaged upfront to support its due diligence required for the monetization of the new assets.
- **Agree on the new T&Cs with the Board and their submission to the CMA for adoption and simultaneous decision by the CMP to terminate the current T&Cs:** this step can start following the notification of the availability of A6.4ERs (the trigger to exclusively serve the Paris Agreement) to the Board and the Trustee by the UNFCCC Secretariat and the adoption of the mechanism for the disposal of the Adaptation Fund's carbon assets under the CDM. Simultaneously, the trustee will revise the monetization strategy, which will be implemented pursuant to the new T&Cs, to take into account the nature and market developments around the new A6.4ERs assets as well as the monetization of the carbon assets under the CDM should this continue to be required.

18. CMA 4 decided that the Adaptation Fund Board and its support structure shall develop and implement a strategy on monetizing A6.4ERs in the share of proceeds for adaptation account held by the Adaptation Fund in the mechanism registry and inform the state of monetization annually to the CMA.<sup>13</sup> The trustee is of the view that the existing monetization strategy<sup>14</sup> can be revised simultaneously when preparing the new T&Cs, and the new monetization strategy will be implemented pursuant to new T&Cs, to take into account the nature and market developments around the new A6.4ERs assets as well as the monetization of the carbon assets under the CDM should this continue to be required.

<sup>13</sup> Decision 7/CMA.4, Annex I, para.60.

<sup>14</sup> Available at <https://www.adaptation-fund.org/document/new-guidelines-for-the-monetization-of-carbon-assets/>

19. The current T&Cs are contained in Annex 1 to this document for easy reference, and the comments from the trustee on these matters are contained in the Addendum to this document (AFB/B.41/9/Add.1).

**2) *Institutional arrangement (MoU) with GEF for secretariat services to the Board (last amended in 2019)***

20. By decision 1/CMP.3, the CMP invited the Global Environment Facility (GEF) to provide secretariat services to the Adaptation Fund Board on an interim basis. The form of the arrangement was an MoU which is often used to denote a firm, but not legally binding, commitment between two or more organizations.<sup>15</sup> The MoU was finalized upon mutual agreement by the CMP and the Council of the GEF, and it became effective upon adoption by the CMP and the Council of the GEF. Amendments to the MoU will need to be mutually agreed upon by the CMP and the Council, and the Adaptation Fund Board can recommend to the CMP any amendments to the MoU. Since its first adoption in 2009, the MoU was extended through decisions 4/CMP.8, 2/CMP10 and 2/CMP.12. The latest MoU was amended in 2019 (Decision 3/CMP.15), and unless otherwise agreed in the same manner, i.e., by CMP decision and concurrence of the GEF Council), the MoU will remain effective.

21. The current MoU has provided effective legal agreement for secretariat services. During the transitional period, the CMP and GEF Council would remain as the signing parties to the MoU, and CMA does not need to be a signing party to the MoU.

22. When the MoU was amended in 2019, Decision 13/CMA.1 and Decision 1/CMP.14 related to the Fund's transition from the Kyoto Protocol to the Paris Agreement were already incorporated in its preamble and Article 1. For the Fund's transition to the Paris Agreement, the new MoU between the GEF and CMA can be prepared by the AFB secretariat in consultation with the GEF secretariat before the 'trigger' occurs, and it will be first submitted to the Board for consideration and approval, and then submitted to the CMA and GEF Council for their respective adoption.

23. If the existing arrangement for the secretariat services is maintain after the Fund exclusively, the current MoU unlikely requires major amendments except replacing the signing party from the CMP to the CMA. The current MoU is contained in Annex 2 to this document.

**3) *Rules of the Procedure of the Adaptation Fund Board***

24. The rules of procedure (RoP) of the Board was established based upon [Decision 1/CMP.3](#) which includes integral features of the Fund: operating entity of Fund; Board's functions, composition, membership, quorum, decision-making, and chairmanship; frequency of meetings; observers; transparency; secretariat; trustee; monetization; access to finding; institutional arrangements; and review. The RoP was adopted by decision 1/CMP.4 and its amendment was adopted by decision 1/CMP.5.

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<sup>15</sup> FCCC/KP/CMP/2008/11/Add.2, Annex II.



25. The Board considered the Rules of Procedure as part of the mandate from the CMP 14 (Decision 1/CMP.14) at its thirty-third, additional meeting (33.b) and the thirty-fourth meeting in 2019, and noted that many provisions of the Rules of Procedure could be unaffected by the transitional period, while some provisions are linked to future decisions by the CMP and/or the CMA related to the matter of Adaptation Fund Board membership. As mentioned above, the issue of the Board membership will be considered at SBI 59 (November-December 2023). Accordingly, the Board concluded that rather than presenting partial revisions of the Rules of Procedure to the CMP in 2019 and reported to the CMP 15 on what it has considered by the Board in terms of the RoP.

26. To facilitate the Board discussion related to the Rules of Procedure in the context of preparing the arrangements for the Fund's transition to the Paris Agreement, the secretariat highlighted provisions of the RoP which would need to be amended for the transition as contained in the Annex 3 to this document. The highlighted provisions do not represent the exhaustive provisions which need to be amended, but only the illustrative ones, and other provisions that are not highlighted may be amended following the future Board discussions and decisions as well as the decisions by the CMP and/or the CMA.

27. The Rules of Procedure with highlights of the provisions which may need amendments for the transition of the Fund to the Paris Agreement is contained in Annex 3 to this document.

#### **4) *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund (OPG)***

28. The OPG was first developed in 2009 in accordance with decision 1/CMP.3 and 1/CMP.4 and based upon the Strategic Priorities, Policies, and Guidelines of the Adaptation Fund (SPPG) (later contained as Annex I to the OPG). The adoption of the OPG was taken note by the CMP by decision 4/CMP.5. The OPG was last amended in October 2022 in response to the mandates arising from decisions 3/CMP.16, paragraphs 6 and 7 and 13/CMA.3, paragraphs 7 and 8. The amendments were made by the Board (Decision B.39/66), primarily for, among others, reflecting decisions 3/CMP.16 and 13/CMA.3 regarding eligible country Parties to access funding from the Fund and the eligible Board membership that the Parties to the Paris Agreement are eligible for Board membership.

29. The amendment to the OPG can be made by the Board through its decision and does not require adoption or decision by the CMP. The current OPG is available on the Fund's [website](#).

#### **5) *Strategic Priorities, Policies, and Guidelines of the Adaptation Fund (SPPG)***

30. The SPPG (Annex 1 to the OPG) was last amended in October 2022 together with the OPG in response to decisions 3/CMP.16 and 13/CMA.3 regarding eligible country Parties to access funding from the Fund and the eligible Board membership that the Parties to the Paris

Agreement are eligible for Board membership. The SPPG was amended by the Board in October 2022 (Decision B.39/66) and was adopted by the CMP 17.<sup>16</sup>

31. Amendments to the SPPG in the context of the Fund's transition to serving the Paris Agreement will follow the similar procedural steps: the amendments to the SPPG will need to be decided by the Board, and the Board will need to invite the CMP and CMA to take any action on, as they deem appropriate, the amendments to the SPPG as approved by the Board.

32. The current SPPG (OPG Annex 1) is available on the Fund's [website](#).

### III. Recommendation

33. Having considered document AFB/B.41/19 and its annexes and addendum, the Adaptation Fund Board (the Board) may want to consider and decide:

a) To request the secretariat:

- (i) To continue consultations with the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the trustee and any other relevant stakeholders with a view to the timely preparation of the arrangements for the transition of the Adaptation Fund from the Kyoto Protocol to the Paris Agreement, as per decision 1/CMP.14, paragraph 2, and report on the status of the work to the Board at its forty-second meeting;
- (ii) To prepare draft amendments to the Rules of Procedure, the Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, and the Strategic Priorities, Policies and guidelines in the context of the transition of the Adaptation Fund from the Kyoto Protocol to the Paris Agreement and report on the status of the work to the Board at its forty-second meeting;

b) To request the secretariat and the trustee to continue consultations with the secretariat of the UNFCCC and any other relevant stakeholders with a view to the timely development of a new terms and conditions for the trustee services and strategy on monetization of Article 6, paragraph 4, emission reductions (A6.4ERs) and to report on the status of the work to the Board at its forty-second meeting.

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<sup>16</sup> Decision 4/CMP.17, para. 10.