

**FINANCING MECHANISM
OF A POST-2012 AGREEMENT ON
CLIMATE CHANGE:**

**SOME THOUGHTS ON GOVERNANCE AND
FUNDS DISTRIBUTION**

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Introduction

This briefing paper intends to advance international thinking on possible governance of a financing mechanism in a post-2012 agreement. We assume that the governance structures for mitigation and adaptation will be developed separately and would likely differ. This briefing note focuses on governance issues related to financing mitigation.

The financial component of a post-2012 agreement is outlined in the Bali Action Plan but it is not clearly defined there. The Bali Action Plan calls for enhanced nationally appropriate mitigation actions (NAMAs) by developing countries to be supported and enabled by technology, financing and capacity building in a measurable, reportable, and verifiable manner. There is now a need to identify and describe the key features of a mechanism that would support mitigation actions in developing countries by channeling capacity building, technology and financial assistance.

There are several key questions that need to be answered (they also define the four key components of a financing mechanism):

- What mechanism can be used to streamline requests for assistance for GHG mitigation from developing countries? (Mitigation actions in DCs)
- How will these requests for up-front financing be evaluated? (Governance and disbursement process)
- Where will the money come from to finance selected requests? (Financial resources)
- How to organize a monitoring, reporting and verification (MRV) component of mitigation actions in developing countries and delivered assistance for these actions? (MRV)

The effectiveness of a financing mechanism will depend on the effectiveness and robustness of each of these components.

In addition, ratification of any new protocol or international agreement covering the post-2012 period will be dependent on a clear sense of the aggregate impact on global emissions of nationally appropriate mitigation actions by developing countries, when coupled with new reduction commitments by developed nations. Accordingly, the process of matching proposals for NAMAs with developed country up-front financial support needs to get off to a **fast start** in 2010 so that countries have that clear sense of the likely aggregate magnitude of developing country action that constitutes a net contribution to global emission reductions in 2020. The design of the governance structure needs to be simple enough that this fast start can occur in 2010, and it needs to build, to the extent possible, on existing structures within the UNFCCC.

A mechanism to request assistance for GHG mitigation actions in developing countries

According to the Bali Action Plan, NAMAs in developing countries will seek financing, capacity building and technology support from developed countries. Thus, NAMAs themselves could be the basis for assistance requests. They should be formulated and

submitted to the UNFCCC in a way to facilitate the process of assistance granting and delivery.

There are still differences in views on what NAMAs mean, what they may include, and how they may be recognized in the international framework. In addition, it has been proposed by some parties that developing countries describe their GHG mitigation actions in national climate change action plans or low-carbon development strategies. In this case, there is a need to find a clear link between NAMAs (formally established by the Bali Action Plan) and national low-carbon development strategies.

In the absence of agreement on what NAMAs are and what role they will play in a post-2012 financing mechanism, this paper follows the South Korean proposal of three types of NAMAs and assumes that a registry of NAMAs will be established to recognize actions by developing countries. The paper also assumes that the registry will be instrumental in directing support to developing countries for the implementation of NAMAs.

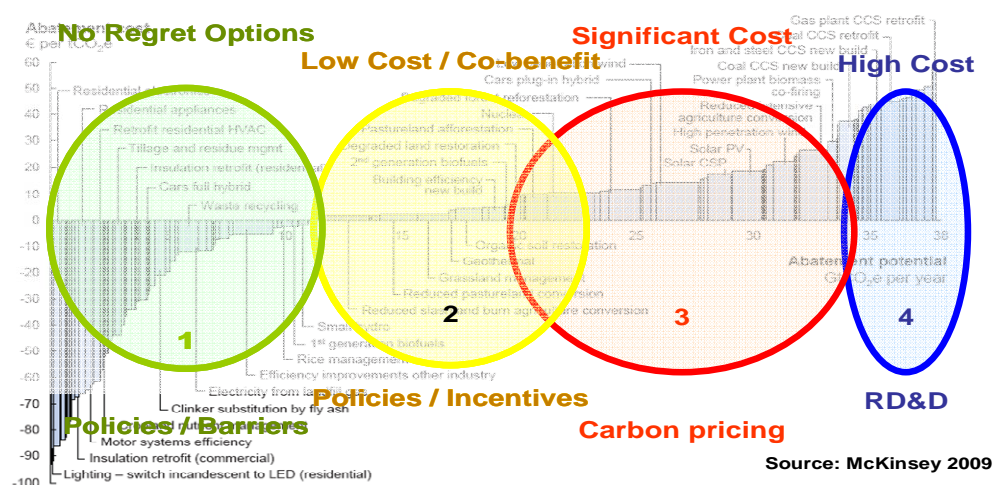
South Korea proposes the following three types of NAMAs: unilateral actions, where no outside support is sought; conditional actions, dependent on financial support from developed nations; and actions that establish a crediting baseline, where carbon credits can be awarded if the action or target is exceeded. We assume that the registry will include all three types of NAMAs. However, only NAMAs in the second category, those seeking assistance, will be evaluated and matched with support. Unilateral NAMAs in the first category will provide an important context to the NAMAs in the second category and could also supply important baseline information for the evaluation of mitigation potential and cost-effectiveness of NAMAs seeking support. We also propose that NAMAs in the third category (those eligible for carbon market) are evaluated separately from NAMAs in the second category, the discussion on this follows below. We also assume that many NAMAs will be sector specific. Sectoral focus will be helpful in setting technology and/or energy and carbon intensity domestic objectives and policies for achieving them.

For the NAMA component of a financing mechanism to be an effective and robust tool of requesting assistance, the following principles need to be applied:

- All identified Nationally appropriate mitigation actions are tied together into a comprehensive low-carbon development strategy or a climate mitigation plan to demonstrate coherence.
- Climate mitigation action plans or low-carbon development strategies (including a set of proposed NAMAs) are nationally driven.
- The development of NAMAs and climate mitigation plans and/or low-carbon development strategies is based on a multi-stakeholder national consultative process.
- These plans and/or strategies and specific NAMAs have proven legitimacy at the national level (e.g., created under inter-ministerial guidance, approved by the president, incorporated into national laws, etc.).
- Mitigation actions requiring assistance (programs, policies, projects) are clearly defined, with the following level of detail:

- General context: current and future place of the sector(s) (where an action takes place) in the national economy (e.g., is it a developing sector or a sector with declining production?);
 - GHG profile: current and expected future share of national GHG emissions from this sector(s);
 - Type of proposed action: capacity building; policy implementation; addressing market and non-market barriers; technology R&D; technology demonstration and diffusion; etc.;
 - Timeframe of proposed actions (e.g., capacity building actions: 1-3 years; policy implementation: 1-5 years; technology deployment: 5-10 years; R&D: more than 10 years, etc.);
 - Expected GHG emission reductions from BAU or net reductions;
 - Total estimated cost of proposed actions, and cost per ton of CO₂-eq. reduced; and
 - MRV provisions (how will the progress in action implementation be monitored, who will do it, how will the achieved emission reductions be estimated or measured, what indicators/metrics will be used to measure the success of proposed action, how will all this information be reported, who, how, and when will verify reported information, how will the baseline information be reported).
- An international registry of developing country actions is established. South Africa and South Korea propose an international registry where NAMAs could be registered.¹

It is not clear yet what kind of NAMAs developing countries may propose for assistance. A McKinsey cost-curve below illustrates a full spectrum of GHG mitigation actions in developing countries.



¹ There is another set of issues related to registries that needs to be addressed, including “What information is provided by countries? Who manages the registry?” but these issues are not addressed by this briefing note.

While it is logical that developing countries could undertake negative cost mitigation actions (circle 1) on their own and propose other actions (circles 2, 3, and 4) for international financial support (through public funds and carbon market tools), the reality may and will likely be different.

Some developing countries may find it necessary to request assistance for capacity building when capacity is lacking and impedes implementation of negative cost measures. Others may need to apply for loans to address market barriers to implementing negative cost measures. Some developing countries may choose to implement low-cost or medium-cost mitigation actions on their own (in addition or instead of negative cost measures), if these actions are in strategically important or sensitive sectors. R&D and technology deployment actions are best addressed through international public and private partnerships that mobilize both public and private funds. Domestic policies may also be designed in such a way that the carbon crediting could occur in various cost categories, and not only in the “carbon pricing” category (circle 3) as outlined by the McKinsey curve.

Therefore, it would be important to build enough flexibility into the financing mechanism to allow developing countries to tailor requests for financing to their national sustainable development strategies. However, it does not mean that certain criteria cannot be agreed on to guide the selection and prioritization process. Key issues related to these criteria are addressed below.

One key decision point for the international process will be how to evaluate conditional NAMAs and subsequently match the up-front financing from developed nations with highly rated conditional NAMAs. This can be seen as a separate decision from a decision to approve a crediting baseline for a NAMA or a set of NAMAs in a particular sector (e.g., electricity). One of the governance challenges for this new NAMA/registry/finance structure is establishing the types and number of bodies needed to make these key decisions (options for the governance structure are discussed below).

It is widely recognized that the future carbon market has a potential to address a much larger scale of GHG mitigation than a financial mechanism that channels public money and leverages some private funds. However, there are still many unresolved issues related to carbon crediting for emission reductions beyond an approved crediting baseline in developing countries, as well as uncertainties related to the possible increases in offsets from developing countries with corresponding toughening of Annex I targets.

It is understood that only those emission reductions in developing countries that take place beyond a crediting baseline or no-lose target could receive carbon credits. To achieve the no-lose target, developing countries would need to implement a range of unilateral and supported mitigation actions. One set of questions that arises is: What timeframe do we envision for unilateral and supported NAMAs? Will national strategies identify actions for the next 10-15 years, with the understanding that crediting will begin only when the no-lose target is achieved through implementation of these NAMAs? Or could companies that achieve this baseline much earlier than the sector as a whole be credited early? This might be conditioned on developing countries creating a tight national regulatory structure with financial penalties or other enforcement mechanisms that ensure that the program will be successfully implemented. A further question relates to the impact of these new NAMA crediting programs and their impact on Annex I

targets. Can Annex I targets for 2020 (or 2030?) be renegotiated after all proposed NAMAs have been evaluated and an aggregate level of crediting baselines is clear (e.g., after five years of operation)?

For example, a system may be proposed that begins in 2010-11 with submissions of NAMAs. A facilitative financing mechanism is launched in 2010: it evaluates NAMAs and partners them with funding sources. At the end of 2011, a report is issued that lists a first set of conditional NAMAs that will receive support. Depending on the stringency and comprehensiveness of NAMAs, approved crediting baselines per country and per sector may also be agreed. Approved NAMAs and approved crediting baselines would be recorded in the UNFCCC registry. The report would also summarize an aggregate (for all developing countries that submitted their NAMAs) projected GHG emission budget for 2020.² The review of additional NAMAs would continue in 2012 and beyond, as it is unlikely that all NAMAs can be reviewed and developed in the first year or two of the new program.

Another set of issues relates to the crediting baseline: What level? How will it be determined that the level is sufficient? Can the principle of similar ambition be used? If so, how is similar ambition measured? Could comparability criteria be applied: GDP, GHG/GDP, GHG/capita, past actions, sectoral energy and carbon intensity, other?

It is also important to recognize that financial assistance to implement NAMAs is not contingent upon setting a crediting baseline. Sometimes, several NAMAs may need to be implemented before a level of GHG emissions can be reached that is stringent enough to represent a crediting baseline, and some of these NAMAs may require and be given up-front assistance to be put in place. Sometimes, a single NAMA may be proposed and implemented in a sector with support from a financing mechanism but without any plans to set a crediting baseline and generate GHG emission offsets. Another question is: what happens to those conditional NAMAs that are not approved for financing?

Support for NAMAs: financial resources made available by developed countries

The financial side of the equation can also be designed in a way that maximizes its effectiveness. Here, several options/issues should be considered:

- A multichannel financing mechanism that includes both existing funds and mechanisms directed at GHG mitigation and new funds that would be committed by the Annex I parties according to an agreement;
- An inclusive structure of financing tools (grants, loans, international partnerships, creation of special purpose financing entities, etc);

² Based on this information, Annex I parties may start a negotiating process on their GHG targets for the period after 2020 (e.g., 2030 and 2050). The information on crediting baselines and the status report on the progress that developing countries are making in reaching them would help to estimate a scale of possible offsets in a post 2020 carbon market. An estimated cumulative emissions by developing countries will also be helpful in determining what Annex I targets should be to stay on track of restricting temperature increase to below 2C.

- A virtual multilateral fund, in which the money is kept in the country of origin, while the multilateral facilitative financing mechanism keeps records of all available resources (together with their location and eligibility criteria, if applied) and directs resources to approved NAMAs;
 - Another option could be that some portions of new funds are pulled together into a multilateral fund with specific objectives (e.g., for establishing MRV systems);
- Existing funds already have certain rules attached to them, so a system/registry needs to be created that will track all available funds and their priority areas; and
- New funds – contributions from Annex I parties should be additional to already ongoing assistance programs, created specifically in compliance with a post-2012 agreement, and should have minimal eligibility requirements, but could still identify preferred priority areas or countries.
- A registry of financial resources and their disbursement will also be needed in addition to the registry of NAMAs;

Below are several examples of existing funding for climate change mitigation to illustrate the importance of developing a new mechanism that is inclusive and incorporates new and existing funds and programs:

- The EGTT interim report estimates that about \$140-230 billion is available annually for the development of mitigation technologies (90% of it is outside the Convention).
- Government funding provides about \$10 billion for RD&D per year.
- GEF funds (Trust Fund, Special Climate Change Fund and Least Developed Countries Fund) contribute about \$0.22-0.32 billion annually for the deployment and diffusion of low carbon technologies.
- About \$1 billion of public finance (through various national and multilateral vehicles) is available to address REDD.

Multilateral Facilitative Financing Mechanism as a process to match NAMAs with financing

It is clear that there is a need for a mechanism that would match requests for financing from developing countries with available funding sources. A mechanism for financial and technological cooperation, including deployment of new technologies in developing countries, is also needed and should assist developing countries with upfront financing to enable cost-effective mitigation efforts with a high mitigation potential.

A Multilateral Facilitative Financing Mechanism (operating under authority of Parties to the UNFCCC) will carry out the following governance functions (which could likely be divided between different entities):

- Facilitate financial assistance to developing countries (by matching NAMAs with support pledges) to implement low- to medium-cost mitigation actions and create enabling conditions for these actions (e.g., loans to local banks to implement energy efficiency; grants to the government to introduce or enforce a certain policy). This mechanism could either approve NAMAs for funding and identify potential sources of funding for particular NAMAs, or go one step further and pair

- NAMAs with funding sources, stopping just short of negotiating specifics (this would be done between the developing country and the funding sources). The advantage of this extra step is that it would significantly simplify access to the funds for developing countries.
- Facilitate technology cooperation, especially new technology commercialization, by writing down (a portion of) incremental cost (e.g., tax credits to Annex I producers of CCS technology to write down their costs of installing several CCS plants in developing countries);
 - Facilitate R&D partnerships (e.g., the IEA Energy Technology Implementing Agreement program could be an example)
 - Finance clearinghouse functions to:
 - Help specific developing countries identify needs for cooperation³;
 - Facilitate technical cooperation to meet identified needs;
 - Provide information and hold training sessions and workshops for the benefit of these developing countries; and
 - Facilitate other cooperative efforts with developing country parties.
 - Finance the Facilitative Financing Mechanism support costs
 - Possibly approve crediting baselines – the Multilateral Facilitative Financing Mechanism could be charged with approving crediting baselines, based upon agreed criteria, or another structure could be created to deal with baselines and determining their stringency.

At the CCAP *Future Actions Dialogue* (FAD) meeting⁴ in New Zealand in February 2009, parties proposed the following principles of a Multilateral Facilitative Financing Mechanism:

- Scaled up global mitigation actions
- Effectiveness
- Simplicity
- Efficiency /cost-effectiveness
- Fairness and equity
- Mutual accountability
- Ability to leverage other public and private money
- Coherence (in terms of how NAMAs fit into bigger national plans and overall concepts)
- Sustainability (in terms of technologies that will be there in 30-50 years)
- Transparency

Disbursement criteria

Probably not all conditional NAMAs will receive the requested support, so a process/mechanism is needed to decide which NAMAs will receive assistance. It is

³ The Facilitative Mechanism could perform some capacity-building functions and assist DCs in formulating NAMAs in such a way that meets requirements imposed by funding sources. It could also work with the donor community to streamline some of the criteria and requirements.

⁴ Future Actions Dialogue (FAD) is a program run by the CCAP since 2005. It brings together negotiators from developed and developing countries twice a year for informal, off-the record discussions. It is designed as a “shadow process” to the formal negotiations.

probably unrealistic to expect prioritization of NAMAs at the international level. Developing Country Parties could instead prioritize NAMAs themselves based on some agreed criteria. However, some prioritization to determine which proposals get reviewed first could be agreed (e.g. electricity sector NAMAs) at the international level to ensure a fast start to the process and to improve the prospects for ratification of any new international agreement or amendments to existing agreements (by assuring sufficient aggregate emissions reductions from developing countries are attained).

Possible criteria for national prioritization could include:

- Cost per ton of CO₂ (e.g., parties could agree that in the first 5 years the facilitative mechanism will fund only those mitigation actions that reduce a ton of CO₂eq at a cost lower than \$10 (a cost limit could be agreed on multilaterally)); RD&D cooperation could also be chosen for priority actions as a long-term mitigation measure)
- Mitigation potential (per year or aggregate) – total GHG emission reduction expected from proposed NAMA (e.g., parties could agree that only actions of sufficient scale will be funded – 0.5 million ton of CO₂ (a scale could be agreed on multilaterally))
- Leveraged domestic resources (e.g., at least 30% (subject to multilateral guidance) of total cost is covered by private or public entity in the host country)
- Role (current and expected in 2020) of this activity/NAMA in the overall economy of this country – Is it in a growing sector? Is it in one of the major sectors of the economy?
- Sustainable development benefit (probably all energy efficiency and renewable energy programs and projects would meet this criteria).

A number of other issues also need to be considered. For example, there are some proposals for limiting the amount of funding that any single party could access (Mexico calls for setting an upper limit at 15% of the total amount in its proposed fund on withdrawals by any single developing country). Should geographic distribution be one of the criteria for providing assistance? Or should we focus on cost-effectiveness and scale of mitigation? Will equity concerns arise in the negotiations (all parties wishing to have access to this mechanism)? Should any thresholds be established for funding of low-cost measures and funding of high-cost technology commercialization?

Should REDD NAMAs be separated from the rest of the pool? If REDD is evaluated together with other NAMAs, it is likely to get priority, according to the criteria suggested above, as REDD has a potential to generate large volumes of emission reductions at a relatively low cost. It would probably make sense to treat REDD separately under the same mechanism and prioritize and select NAMAs within the REDD compartment. In this case, should the funds for REDD be separated from the rest of the financial pool?

The same set of questions could apply to capacity building. Capacity building actions could be at a relatively low cost and with only limited possibility for MRV, besides it may be difficult to measure effects of these activities on mitigation. Should capacity building activities be evaluated and funded separately from other mitigation actions?

A system should be put in place that maximizes efficiency of decision making without creating too many separate compartments that would risk jeopardizing coherence.

An escalating system of eligibility requirements could be suggested for NAMAs with escalating financing needs and complexity.

Type of activity	Eligibility criteria for funding activities on MITIGATION
Capacity building (legal, institutional, policy development, education, outreach)	<ul style="list-style-type: none"> • Existence of explicit government objectives and strategies • Availability of national climate change plans • Responsible institution
National policies implementation	<ul style="list-style-type: none"> • Existence of explicit government objectives and strategies • Policy framework (national climate change plans, energy efficiency programs, sectoral programs) • Legal framework • Responsible institutions • Identified barriers • Identified stakeholders • GHG mitigation potential
Stand alone projects	<ul style="list-style-type: none"> • Existence of explicit government objectives and strategies • Policy framework (national climate change plans, energy efficiency programs, sectoral programs) • Legal framework • Responsible institutions • Project justification • Environmental impact assessment, stakeholder consultations • Compliance with national policies • GHG mitigation potential • Total abatement cost estimate
Technology development and commercialization	<ul style="list-style-type: none"> • Existence of explicit government objectives and strategies • Policy framework (national climate change plans, energy efficiency programs, sectoral programs) • Legal framework • Institutional framework • Needs assessment/justification • Cost-benefit analysis • GHG mitigation potential • Technology diffusion mechanisms • Supporting policies, incentives • Technology deployment agreements with the private sector

Governance and institutional structure

Here we examine some governance options for implementing the tasks outlined above for the multilateral financing facilitative mechanism.

Parties are looking for a mechanism with streamlined decision-making and limited bureaucracy. It is also clear that parties would like to move away from the traditional donor-recipient relationship that has prevailed in the past, thus calling for a multilateral governance of the financial mechanism that will be created for the post-2012 climate regime.

While a new multilateral approach to governance has a risk of complicating the decision-making process and creating bureaucratic structures that would diminish efficiency, it also offers some clear advantages, such as mutual accountability, fairness, equity, and transparency.

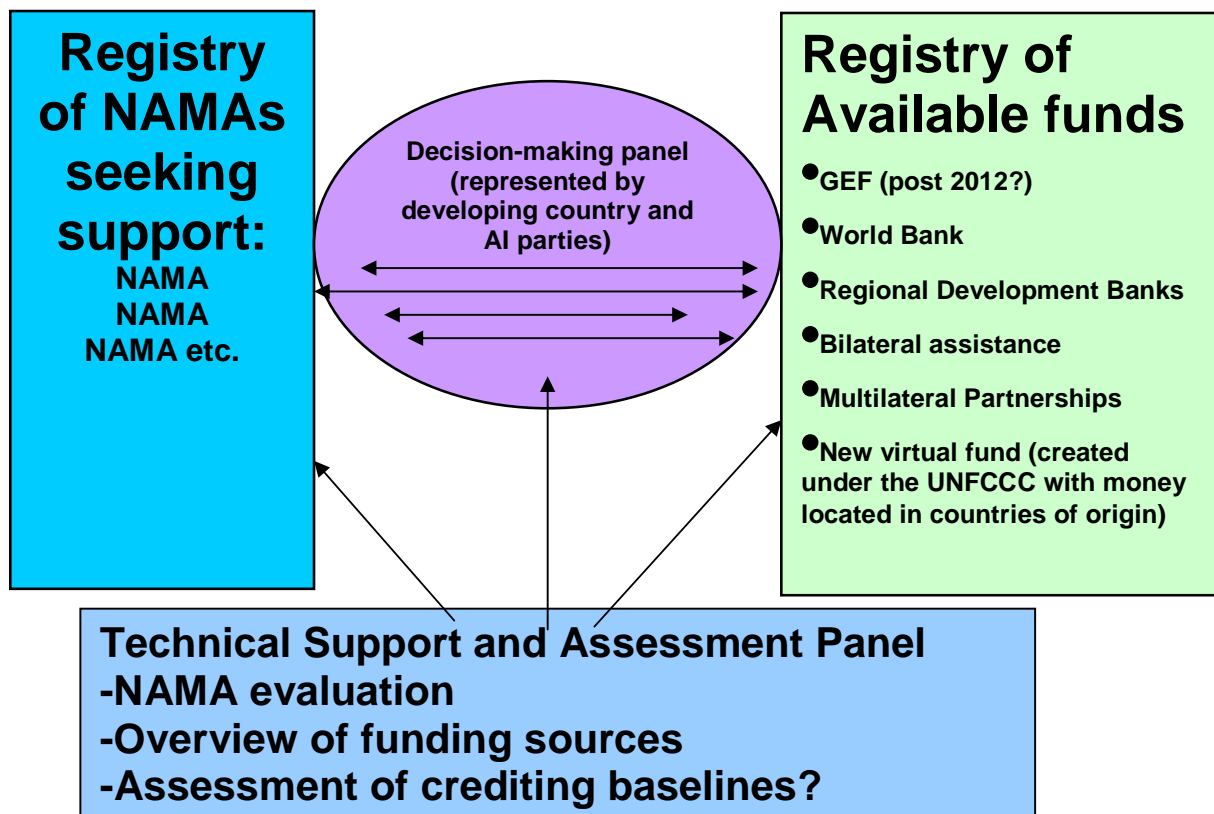
To address some of the complexities and risks of over-bureaucratization, various actions could be taken. For example, the key criteria for funds disbursement could be agreed multilaterally by the COP. The decision-making body could also be separated from the technical/evaluating body. Two types of decisions will need to be made about NAMAs: 1) which conditional NAMAs receive support, how much and from whom; and 2) where should a crediting baseline be set for a NAMA or group of NAMAs in a particular sector?. The delegates attending the CCAP FAD meeting in February seemed to favor the idea of having a professional staff to evaluate NAMA proposals (e.g., a multilateral fund and a TEAP-like process, a la the Montreal Protocol) and separating that staff from the decision-making process that matches funding from developed countries with specific NAMA proposals.

The institutional structure of a facilitative mechanism could thus include 1) a decision-making panel and 2) a technical panel, each with distinct functions and responsibilities. For example, a group of donor countries along with some developing country representatives could make decisions on funding conditional NAMAs while decisions on a crediting baseline could be done by a group of experts and government representatives from the UNFCCC parties – something similar to a super CDM Executive Board. Alternatively, the NAMA funding decision process could also include representatives from key multilateral funding institutions (e.g., World Bank, regional development banks). Each of these bodies could be assisted by some technical staff from the UNFCCC or elsewhere and a technical panel (like the TEAP in the Montreal Protocol) to assist in the evaluation of crediting baselines.

Existing institutions should be utilized to the extent possible in technical evaluation. If necessary, special cooperation agreements could be established between the new Multilateral Facilitative Financing Mechanism and the existing specialized bodies. For example, EGTT could be solicited for evaluation of NAMAs focusing on specific technologies; UN bodies and programs specialized in various sectors (e.g., REDD) could be solicited for evaluation of NAMAs in those sectors, etc.

The following figure illustrates one way in which the facilitative mechanism and associated parties could be organized.

Multilateral Financing Facilitative Mechanism under the UNFCCC (Matchmaking Process)



The decision-making panel for conditional NAMAs would:

- Supervise the financial facilitative mechanism, under the authority and guidance of the COP/MOP, and be fully accountable to the COP/MOP;
- Report on its activities to each session of the COP/MOP;
- Approve conditional NAMAs for financial assistance;
- Match approved NAMAs with financing sources;
- Report to the COP/MOP on the GHG emission reductions achieved and financial resources disbursed on an annual basis;
- Develop and maintain NAMA and support/financial resources registries;
- Make any technical reports commissioned available to the public; and
- Possibly evaluate and approve crediting baselines.

A super-executive board (if a separate structure for approving crediting baselines is created) would:

- Evaluate the scale of potential offsets;
- Approve crediting baselines per sector and per country;
- Report to the COP on the progress being made by countries in reaching their sectoral baselines; and
- Report to the COP on the magnitude of offsets being generated.

The technical panel under the decision-making panel would:

- provide technical information related to low-carbon technologies;
- evaluate NAMAs against established criteria;
- submit NAMAs that pass evaluation to the facilitative mechanism for matchmaking;
- evaluate all supporting documents provided by parties for NAMAs;
- evaluate the eligibility requirements of various funding mechanisms; and
- possibly evaluate the stringency of proposed sectoral crediting baselines.

The technical panel under a super-executive board would:

- Evaluate the cumulative GHG emissions impacts of proposed NAMAs in a particular sector by a country;
- Assess the overall stringency of a country's efforts;
- Approve a country's proposed crediting baseline; and
- Assess progress being made by a country in reaching its crediting baseline.

Monitoring, reporting, verification - MRV

The Bali Action Plan puts a strong emphasis on monitoring, reporting and verification (MRV). For international cooperation on GHG mitigation to be effective and to ensure accounting of all actions, as well as support provided by the Annex I parties to assist developing countries with their domestic actions, a comprehensive and accurate system of monitoring, reporting and verification needs to be developed.

The details of the MRV system have yet to be decided. Important considerations in developing this system include:

- Will MRV be part of the facilitative mechanism or under a separate structure? If it is under a separate structure, it would need to send regular reports to the facilitative mechanism on monitoring of implementation of mitigation actions in developing countries and on monitoring of the funds being disbursed.
- An MRV system could be quite complex, judging by the OECD experience with tracking ODA. Could OECD be tasked with registering support?
- Will different MRV rules apply to unilateral vs. supported NAMAs, and will MRV rules for REDD NAMAs be different than those of other NAMAs?

National GHG inventories would also play an important role in evaluating an overall national progress in addressing GHG mitigation in developing countries. A question could be asked whether national inventories could eventually (after several years of implementation of a multilateral facilitative financing mechanism) replace an MRV system for specific actions. If developing countries establish strong national policies with GHG objectives and stringent enforcement provisions, their international accountability could be provided for by national inventories. In this case international financing could be delivered on the basis of national inventories that would demonstrate sectoral and national performances and progress made from year to year.

The issue of MRV and national inventories need to be explored and discussed further. It is one of the key building blocks of post-2012 architecture, but it was not the focus of this briefing paper.

Summary of key points

- A multilateral facilitative mechanism is needed that would match requests for assistance for GHG mitigation actions by developing countries with up-front financial support from developed countries. This matching process needs to get off to a fast start in 2010 so that countries have a clear sense of the likely aggregate magnitude of developing country action that constitutes a net contribution to global emission reductions in 2020.
- National appropriate mitigation actions (NAMAs) established by the Bali Action Plan could be the basis for assistance requests. They should be formulated and submitted to the UNFCCC in a way to facilitate the process of assistance granting and delivery.
- A registry of NAMAs will be instrumental in recognizing developing countries actions and directing support to them for the implementation of NAMAs. The registry could include all three types of NAMAs (outlined in the proposal by South Korea). However, only NAMAs in the second category, those seeking assistance, will be evaluated and matched with support. Unilateral NAMAs in the first category will provide an important context to the NAMAs in the second category and could also supply important baseline information for the evaluation of mitigation potential and cost-effectiveness of NAMAs seeking support. We also propose that NAMAs in the third category (those eligible for carbon market) are evaluated separately from the NAMAs in the second category.
- Financial assistance to implement NAMAs is not contingent upon setting a crediting baseline.
- Financial resources from developed countries could be combined into a virtual multilateral fund. A virtual fund would keep records of available resources but the actual money would be kept in the countries of origin. Some portions of new funds could be pulled together into a physical multilateral fund with specific objectives (e.g., to assist developing countries with establishing MRV systems) or to fund NAMAs that were not matched with available funding sources. A registry of financial resources and their disbursement will also be needed in addition to the registry of NAMAs.
- MRV of NAMAs, MRV of support and annual national inventories of GHG emissions in developing countries will be critical for demonstrating compliance and building confidence in the financing mechanism. Decisions are yet to be made on these elements and their links with the financing mechanism.
- A Multilateral Facilitative Financing Mechanism (operating under authority of Parties to the UNFCCC) will carry out the following governance functions (which could likely be divided between different entities):

- Facilitate financial assistance to developing countries to implement low-to medium-cost mitigation actions;
 - Assist developing countries in creating enabling conditions for these actions;
 - Facilitate technology cooperation, especially new technology commercialization, by writing down (a portion of) incremental cost;
 - Facilitate R&D partnerships;
 - Finance clearinghouse and capacity building functions;
 - Finance the Facilitative Financing Mechanism support costs;
 - Approve crediting baselines – the Multilateral Facilitative Financing Mechanism could be charged with approving crediting baselines, based upon agreed criteria, or another structure could be created to deal with baselines and determining their stringency.
- To guide the NAMA evaluation process, a set of criteria for national prioritization could be agreed on multilaterally. Possible criteria could include: Cost per ton of CO₂ ; Mitigation potential (per year or aggregate) – total GHG emission reduction expected from proposed NAMA; Leveraged domestic resources; Role (current and expected in 2020) of this activity/NAMA in the overall economy of this country; Sustainable development benefit.
 - Decisions need to be made whether all NAMAs will be evaluated by one system or separate pools/windows on NAMAs will be created separating for example, REDD NAMAs, capacity building NAMAs, policy NAMAs, and technology NAMAs into distinct tracks. If latter option is chosen, another question is whether available funds will have to be divided and designated for NAMAs from specific tracks, (e.g., 30%- for REDD NAMAs, 20% - policy NAMAs in other sectors, 10% - capacity building; 20% - technology deployment, 20% - R&D).
 - One of the governance challenges for a new NAMA/registry/finance structure is establishing the types and number of bodies needed to make the key decisions. The decision-making body could be separated from the technical/evaluating body. Two types of decisions will need to be made about NAMAs: 1) which conditional NAMAs receive support, how much and from whom?, and 2) where should a crediting baseline be set for a NAMA or group of NAMAs in a particular sector? Two decision-making bodies could be established to answer these two sets of questions. Each of them could be supported by a technical body. Existing institutions could be involved in technical evaluation processes through entering into special agreements with the Multilateral Facilitative Financing Mechanism.



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