

The Institutional Architecture for Financing a Global Climate Deal: An Options Paper



Technical Working Group

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I. Presentation

The Technical Working Group on the Institutional Architecture for Climate Finance was created for several basic reasons. First, proposing an acceptable framework under which new and existing financial institutions can work effectively and efficiently is central to ensuring a positive outcome of COP-15 of UNFCCC in Copenhagen and equally important to ensuring successful implementation of a post 2012 agreement. Second, to date, understandings about the requirements of an effective institutional architecture remain quite thin and uneven among Parties. And third, most of the proposals put forth by Parties, institutions and non-governmental organizations tend to focus on the legitimacy of existing or newly proposed institutions themselves, rather than focusing on how a new arrangement can support the harmonization and coordination of existing and additional financial flows in an efficient, effective manner to ensure emissions reductions targets agreed by the Parties.

To strengthen the discussion about the institutional architecture for a post-2012 agreement among Parties, the Danish Government encouraged the creation of a Technical Working Group on the Institutional Architecture for Climate Finance as part of the lead-up to COP-15 of UNFCCC in Copenhagen. While operating independently from the Danish government and from all formal negotiation processes, the Technical Working Group set out to develop a series of institutional options that explore common ground between developed and developing countries as a way of expediting future agreements on the key institutional issues. The Technical Working Group was composed of 3 representatives from contributing countries, 3 representatives from recipient countries, a convener and a *rapporteur*.

The Technical Working Group agreed to focus on the basic structure of the financial architecture and the related governance arrangements, but not on the source of financial flows or commitment levels. Our task was to explore potential architectural options that might be acceptable as a compromise between contributing and recipient countries by, on one hand, building on the strengths of existing institutions while, on the other, identifying new arrangements where current institutions may be less effective in responding to new demands. The central criterion for assessing those options was ensuring an international financing system to reduce carbon emissions in coming decades to meet emission reductions targets agreed by the Parties and adapt to the impacts of climate change.

The results of the Technical Working Group's deliberations are presented in the following order. In the first section we clarify the financial needs and challenges that the global community must address to achieve emissions reductions and support adaptation measures. This section also includes succinct definitions of key terms used in describing the institutional architecture. The second section summarizes the principal elements of the two predominant architectural proposals: the first is the contributing or developed country proposal and the second is the developing or recipient country proposal. Those two proposals represent polarized options at the time of this writing. The third section sets forth what we consider to be a compromise position between the two, a position that places facilitating financial flows at the center of its design. This document concludes with a brief recommendation for negotiating Parties.

II. Financial flows

Considerable efforts have been made by a broad range of analysts to estimate developing countries' funding needs to address climate change. Estimates vary in keeping with the different assumptions used by analysts. For example, assumptions vary on key issues including: the business-as-usual base line; the level of emissions reductions that should be achieved by a given date; the marginal cost of abatement or adaptation in different economic sectors; the assignment of technology research and development costs among countries; and so forth. Available estimates also vary in respect to the types of cost estimates used. Some give annual figures that combine up-front investment and annual financing needs (the latter including year to year operation, maintenance and financial costs), while others present investment figures separately. However, for purposes of presenting one widely recognized analysis, the following highlight the UNFCCC Secretariat's calculus.

UNFCCC Secretariat's Estimate of Developing Countries' Additional Investment and Financial Flows Needs to Address Climate Change (Billion of US dollars per year in the year 2030)¹

| Mitigation ² | Adaptation | Technology R&D ³ |
|-------------------------|----------------|-----------------------------|
| 64.7 | 27.75 to 58.25 | 17.5 to 22.5 |

For comparison, the European Commission (2009) estimates that mitigation finance alone will rise to 94B Euros per year in the year 2020. Project Catalyst/McKinsey (2009) estimates that between 75 and 115 B Euros per year will be needed to finance mitigation, adaptation and technology cooperation in the year 2020.⁴

Overall, however, all available studies agree that: (a) around 2020, annual abatement and adaptation costs in developing countries are likely to be in the order of one hundred to two hundred billion dollars a year; and (b) current funding proposals would only deliver a small fraction of that needed amount. Therefore, the overarching imperative of designing a system for international climate finance is to incentivize a steadily expanding flow of resources from all available sources for transforming high-carbon economic systems and increasing the resilience of vulnerable developing countries and to leverage a significant fraction of these resources in the private sector. That imperative is made ever more urgent by the lack of confidence and ineffectiveness of the current architecture. In this context, the new architecture must:

¹ These figures are part of a global scenario to bring the world's 2030 GHG emissions to 25% below 2000 levels. The UNFCCC Secretariat's studies do not provide estimates of annual costs before 2030. These figures combine annual financial costs and investment costs. There are no separate capital investment figures. Estimates are expressed in 2005 US dollars.

² Estimated mitigation costs are calculated on a target to abate 21.7 Gt of CO₂e by 2030. These figures include mitigation in forest and agriculture sectors.

³ The UNFCCC studies only provide world figures for technology R&D calculated to total between– US \$35 billion and US \$ 45 billion per year by the year 2030. In the above table we have arbitrarily assigned 50% these costs to developing countries. Source: *Investment and financial flows to address climate change: an update, 26 November 2008 (FCCC/TP/2008/7, tables 5 and 16)*

⁴ Beyond the annual financing needs, both Project Catalyst/McKinsey and the European Commission provide estimates of additional annual capital investment needs for mitigation. Those needs are in the order of 90 to 130 B Euros a year for 2020. Note that interest on these investments are included in the annual financing figures. See Project Catalyst Symposium March 4 and 5, 2009 Washington DC, and EU/JRC/IPTS, 2009 Economic Assessment of Post – 2012 Global Climate Policies.

- incentivize new and existing resource flows, particularly from the private sector;
- manage and disburse diverse sources of funding ranging from national quotas, levies, public funds, carbon markets, private equity, among others;
- adjust to different blends of financing and needs over time; and
- make full use of existing implementation capacity and stimulate growth of new capacity, especially at the country level.

It is important to recognize that there will be multiples sources of funding to be aligned with the Convention's emission reductions target, including:

- International levies and auctioning revenues;
- National budgets;
- Compliance carbon offset markets (national regional or international);
- Voluntary international carbon offset markets; and
- Private sector investors, and ;
- Private foundations.

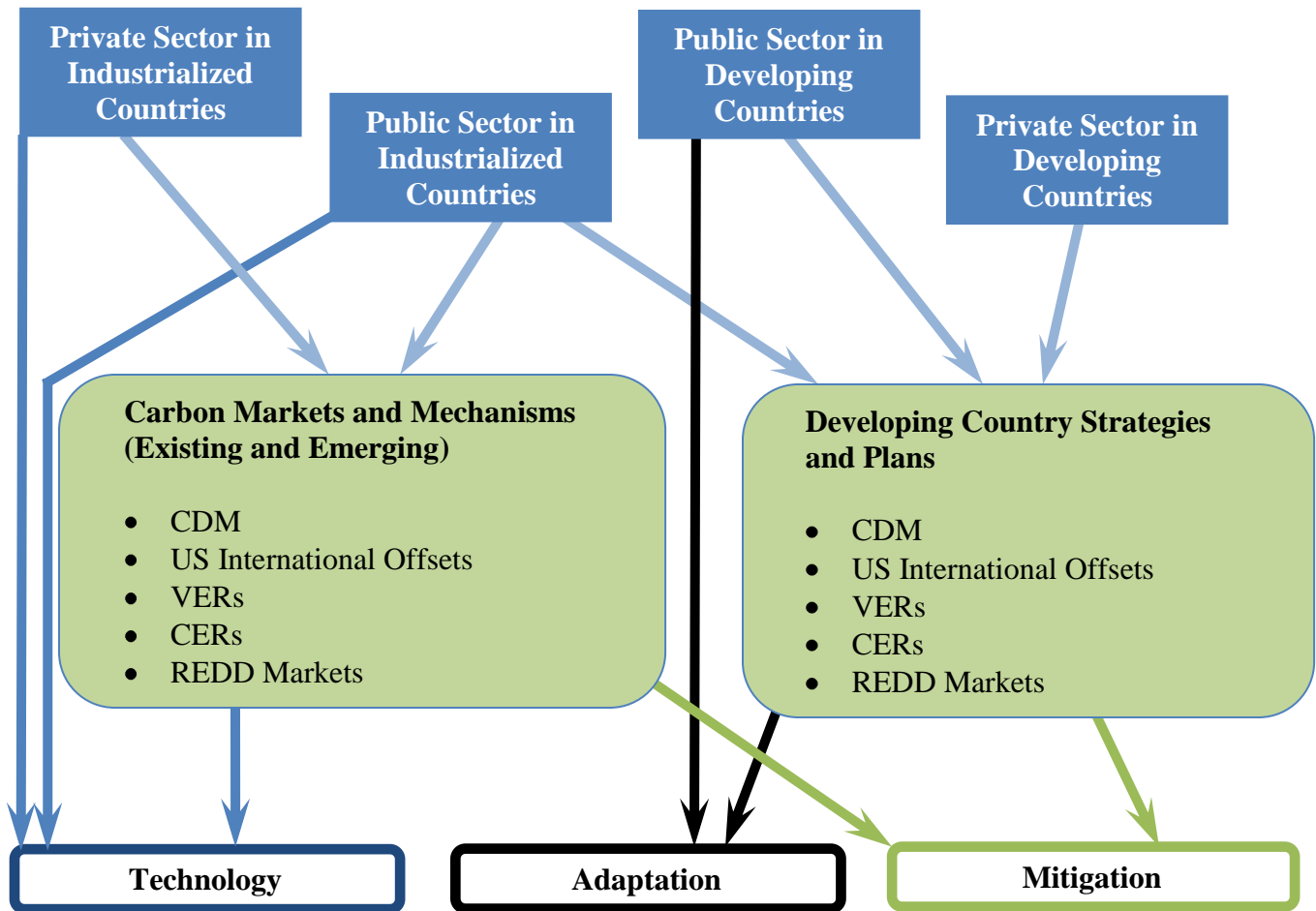
Products delivered by these sources could include commercial or concessional loans, grants, guarantees, equity, mezzanine finance as well as insurance products, among others.

For reasons of efficiency, control and different kinds of funds, it is unrealistic to suggest that these distinct financial sources can or should be pooled into one fund or be centrally managed under the Conference of the Parties (COP). What has become clearer, however, is that:

- International public funds will be of critical importance to pay for:
 - Adaptation costs, particularly in most vulnerable and less developed countries;
 - Some stages of technology cooperation;
 - In the start-up phase of mitigation efforts in most developing countries including the preparatory and capacity building stage of NAMAs; and
 - In all phases of mitigation implementation efforts in the cases of least developed countries, including those relevant for REDD;
- Domestic public funds will be an important source of mitigation funding especially in middle-income countries with high greenhouse gas (GHG) emitting economies; and
- Carbon markets and other forms of private funding will become increasingly important and eclipse public funding as financial mechanisms mature and expand, and as developing countries are able to market successful mitigation programs.

These flows are presented in Figure 1.

Figure 1: Finance Sources for and Flows to Mitigation, Adaptation and Technology Transfer Activities



In conclusion, it is imperative to establish immediately a sizeable pool of public financing disbursed under authority or guidance of the COP to initiate mitigation and adaptation activities. Clearly, additional international public funds can be channeled through different multilateral and bilateral institutions to scale-up successful pilot adaptation, mitigation and technology cooperation activities. It is recognized widely that funds under authority or guidance of the COP could be important to build confidence among governments and to launch more ambitious adaptation and mitigation programs in subsequent commitment periods. These initial public funds could be critical to help incentivize participation from other funding partners and to leverage other non-COP mandated funding sources, notably from the private sector. At present there are only two COP-mandated institutions, the Global Environment Facility (GEF) and the Adaptation Fund Board (AFB). While the GEF is a well-established institution, there is a need to reform its structure and procedures to respond to the demands voiced by the COP. The AFB is a new institution and currently in the process of acquiring operational capacity. It, too, will need to evolve as a flexible, demand-driven COP-mandated funding source for adaptation.

Operational Definitions

Designing appropriate institutional options requires having a common set of terms and understandings about the building blocks of the institutional architecture. To that end, the Technical Working Group uses the following four terms throughout the discussion of options that follows below:

Operating Entity or Body: An operating body is the primary operational business entity of the global financial mechanism in that all business functions are carried out under that entity's purview. Depending on the mandate assigned to the body by the COP, such business functions can include: oversee and monitor technical operations carried out under the Convention; establish and ensure compliance with standards including monitoring, reporting and verification (MRV); operate funds and financial windows; establish and manage registries.

Accessing Entity or Body: An accessing body is a secondary business entity whose purpose is to deliver financial resources to a developing country. That accessing body can be a national institution or it can be an international intermediary entity that works with a national institution to receive those financial resources.

Direct Access: When a national institution meets internationally agreed fiduciary standards, including monitoring and reporting criteria that institution can have direct access to financial resources provided through the UNFCCC/COP. An example for an institution providing direct access is the newly created AFB, which is in the process of creating the institutional setup to enable developing countries to directly access resources from the Adaptation Fund (AF).

Indirect Access: If direct access is not viable or acceptable, an intermediary agency or body is required to provide critical services. In this case, national access to financing provided through the UNFCCC/COP is channeled through an international accessing body. An example of an institution with an indirect access modality is the GEF which provides funding to developing countries through ten designated GEF Implementing Agencies.

III. The Polarized Options from Developed and Developing Countries

The Technical Working Group confirmed that currently there are two models of proposals that dominate the policy dialogue and informal negotiations regarding institutional arrangements for a post 2012 climate deal. In succinct form, they are the proposal articulated by developed or contributing countries and the proposal tabled by developing or recipient countries (G77 and China). The criterion that creates a polarized relationship regards which countries will control the mobilization and disbursement of financial resources. Each proposal is reviewed below.

Developed or Contributing Country Option: Fully Decentralized Model

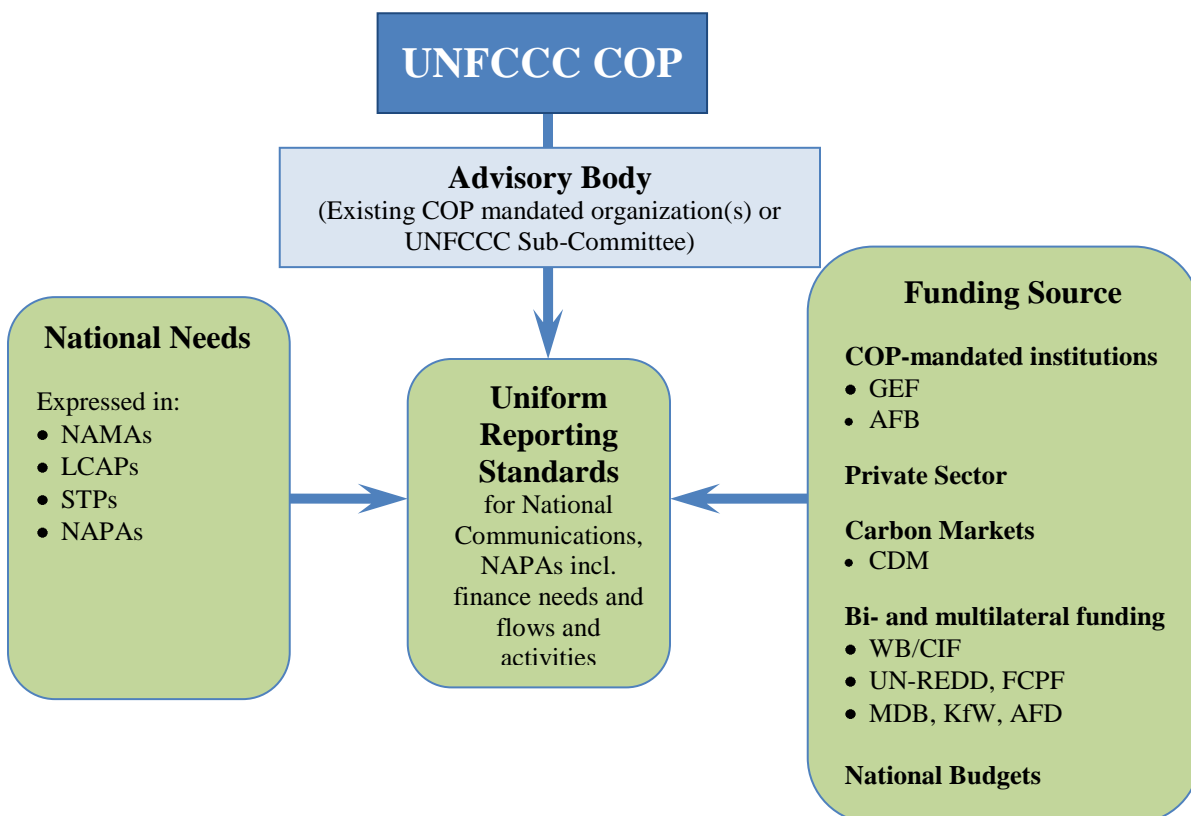
The central premise of the contributing country perspective is that working through and enhancing the capabilities of existing institutions is paramount. Contributing countries place particular emphasis on the World Bank Group, bilateral and regional development banks and the GEF. While contributing countries recognize that those institutions may need to undergo

reforms, their position is grounded in the view that those international institutions have been established through an internationally accepted negotiation process and demonstrated their ability, although limited in its current form, to deliver development assistance and environmental finance over the past decades. Replacing those existing institutions with new institutions would place the viability of any institutional arrangement for a future climate agreement at risk.

Underlying this perspective is the strongly held view that contributing countries must exercise control over the delivery and use of financial resources originating with their domestic taxpayers. Contributing countries hold that receiving countries should meet established fiduciary standards prior to funds disbursement while also seeking guarantees that expenditures will generate the emission reductions promised at the time of disbursement. If resources are to flow in greater volumes in the future, initial contributions must demonstrate that measurable and verifiable emission reductions are resulting directly from developed country financing.

This predicate of maintaining control of the financial flow through existing institutions, in fact, institutions that donor countries already control, translates into an architecture that currently features a rather weak Operating Entity or Operating Body working under the authority or mandate of the COP (Figure 2). In fact, rather than proposing an Operating Body as defined above, the contributing country model (or fully decentralized option) suggests setting up a body that could more appropriately be called an Advisory Body that could be built on an existing COP authorized mandated organization (such as the GEF or AFB) or even be a sub-committee of the UNFCCC/COP.

Figure 2: Fully Decentralized Option



A major function of this Advisory Body would be to strengthen uniform reporting standards in National Communications from governments and, thereby, strengthen the presentation of national strategies, phasing of emission reduction programs, priority investment needs, technology development needs, adaptation strategies and other activities. The assumption is that through a more robust and standardized reporting and information system, international agencies and investors could better target the use of their financial resources for example by building on existing or improved National Communications and Technology Needs Assessments (TNAs). In turn, as carbon markets mature, a very broad and increasingly specific database would be available to priority countries and sectors, subsequently requesting funding for priority projects reducing GHG emissions.

The access paths for COP-mandated funds will need to be further discussed by the COP and the governing bodies of the operating institutions of those funds. Currently, the AFB is set up to provide, in future, funding through direct access to developing countries while the GEF, as governed for the past 16 years, is an indirect access operating entity. If so mandated by the COP, the GEF can explore direct access relations which would ultimately have to be approved by the GEF Assembly and reflected in a revised GEF legal instrument.

Pros and Cons for Fully Decentralized or Contributing Country Option

Pros:

- Design can attract large non-COP mandated funds from diverse sources such as the private sector or bi- and multilateral sources
- There is no need to create new institutions
- Gives high visibility to donors/contributors
- Makes full use of existing implementation capacity
- Decentralized decision making
- Competition among ideas and institutions

Cons:

- Reinforces the proliferation of funding mechanisms and windows
- Potentially lacking proper coordination and necessary sanctioning mechanisms
- Existing institutions have limited capacity to effectively engage markets and private sector flows to change investment behavior in a coordinated way
- This option is based on the status quo and not reflecting potentially needed institutional change

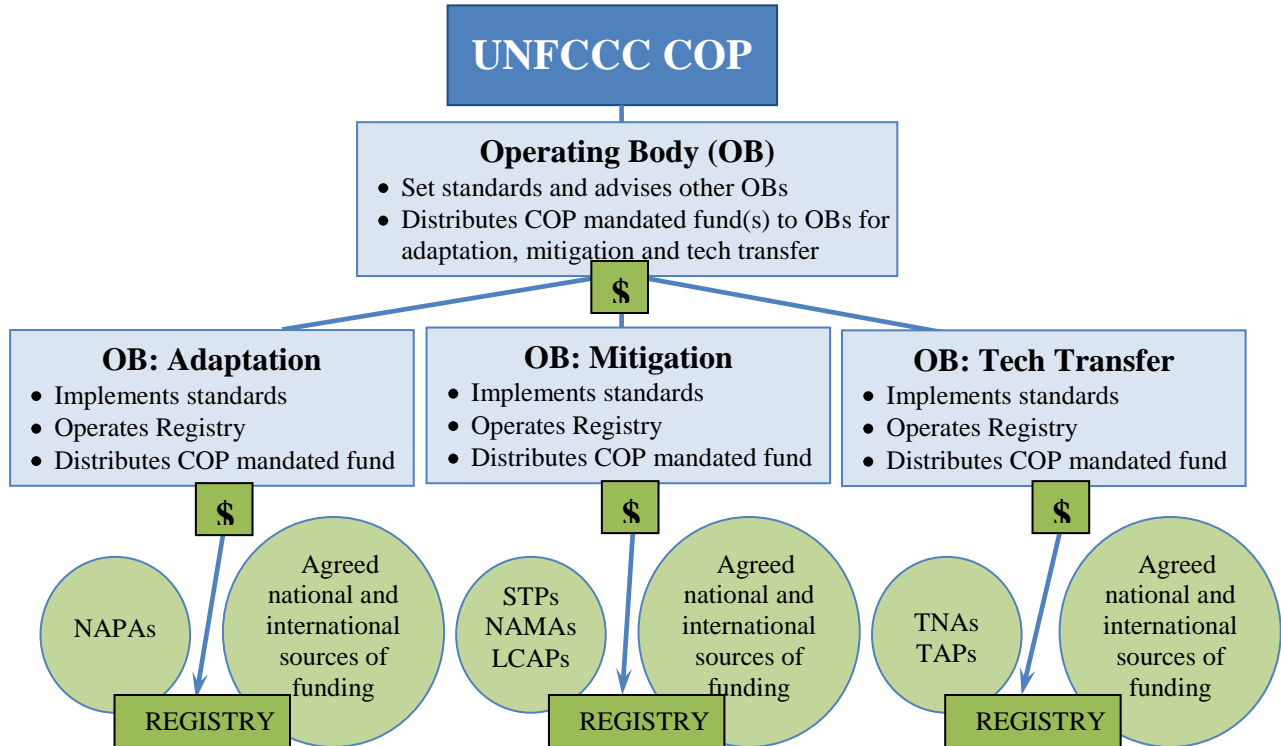
Developing or Recipient Country Option: Centralized Financial Mechanism

The starting point of the G-77+China option is that the current institutional architecture is perceived as unfair and ineffective. While the developing countries underscore the need to properly reflect their interests and needs; they increasingly emphasize their role in meeting the agreed emissions reduction targets, especially those countries with high GHG emitting sectors. They consistently voice the need for an enhanced financial support, technology and capacity development to meet Convention commitments. By extension, the G-77+China option underscores the imperative that a new set of institutions must be put in place in order to ensure effective participation of the developing countries with very diverse needs.

As with the option suggested by contributing countries, the principal issue shaping this approach to institutional arrangements is who will manage and govern financial resources. First, the G-77+China option suggests that funding generated from the public sphere in Annex I countries is principally viewed as the main source of funding for national activities supporting the Convention objective while private sector and carbon market revenues will constitute a secondary though rising source in later years. Second, the G-77+China proposes that these resources should be managed through trust fund arrangements directly under the authority of the COP. Third, this option suggests that distinct funds should be created for adaptation, mitigation and technology development/transfer. Fourth, distinct operating bodies need to be created for the management of each of those three funds, with each operating body having a predominance of developing country representatives, as with the newly created AFB. These features translate into an architectural option in which recipient countries, as the principal actors responsible for implementing changes in their economic systems, must be in charge of the application and management of these public-based financial resources.

When this perspective is translated into structural terms, the most salient feature of the G-77+China option is that it is a centralized model that places a great deal of control in the principal Operating Body and in the three sub-operating bodies linked with adaptation, mitigation and technology transfer (Figure 3). The principal Operating Body is charged with overseeing the full range of activities carried out under the Convention and allocates financial resources across the three strategic areas to ensure equitable distribution and balanced implementation of Convention decisions. This model is institution heavy in that it proposes creating up to four operating bodies and, if a role is accorded to the AFB and the GEF as COP mandated institutions, no less than two new operating bodies. Each of those bodies would be charged with specific technical, financial and registry management functions. Each sub-operating body will oversee dedicated finance windows with their corresponding registries. Moreover, each sub-operating body will require its distinct technical and financial administrative units to implement its operations.

Figure 3: Developing or Recipient Country Option: Centralized Financial Mechanism



The role of the AFB seems to be clear because of its thematic focus on adaptation. In contrast, the role of the GEF is less clear because it currently addresses various aspects of adaptation, mitigation and technology cooperation, providing incremental funding for enabling activities, technical assistance and investments.

As regards access paths, developing countries have voiced a clear preference for direct access to COP-mandated funding sources. By building the AFB on a direct access modality, a precedent has been established that will allow developing countries to directly access funds. Developing countries have suggested that the GEF be likewise restructured to allow direct access to GEF Trust Fund resources, including funds in the Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF).

Pros and Cons for Developing or Recipient Country Option: Centralized Financial Mechanism

Pros:

- Registry approach reflects domestic contributions for adaptation, mitigation and technology transfer
- Permits a highly coordinated approach and forces policy coherence between and among donors as spelled out in the Paris Declaration on Aid Effectiveness
- Supports a large COP mandated fund with resources pooled from a diversity of sources and distributes financial resources to subsidiary operating bodies based on COP- decision
- Potentially does not require creation of a new institution for adaptation (AFB), and perhaps not for mitigation if that task is given to the GEF
- Fully reflects the views of developing countries

Cons:

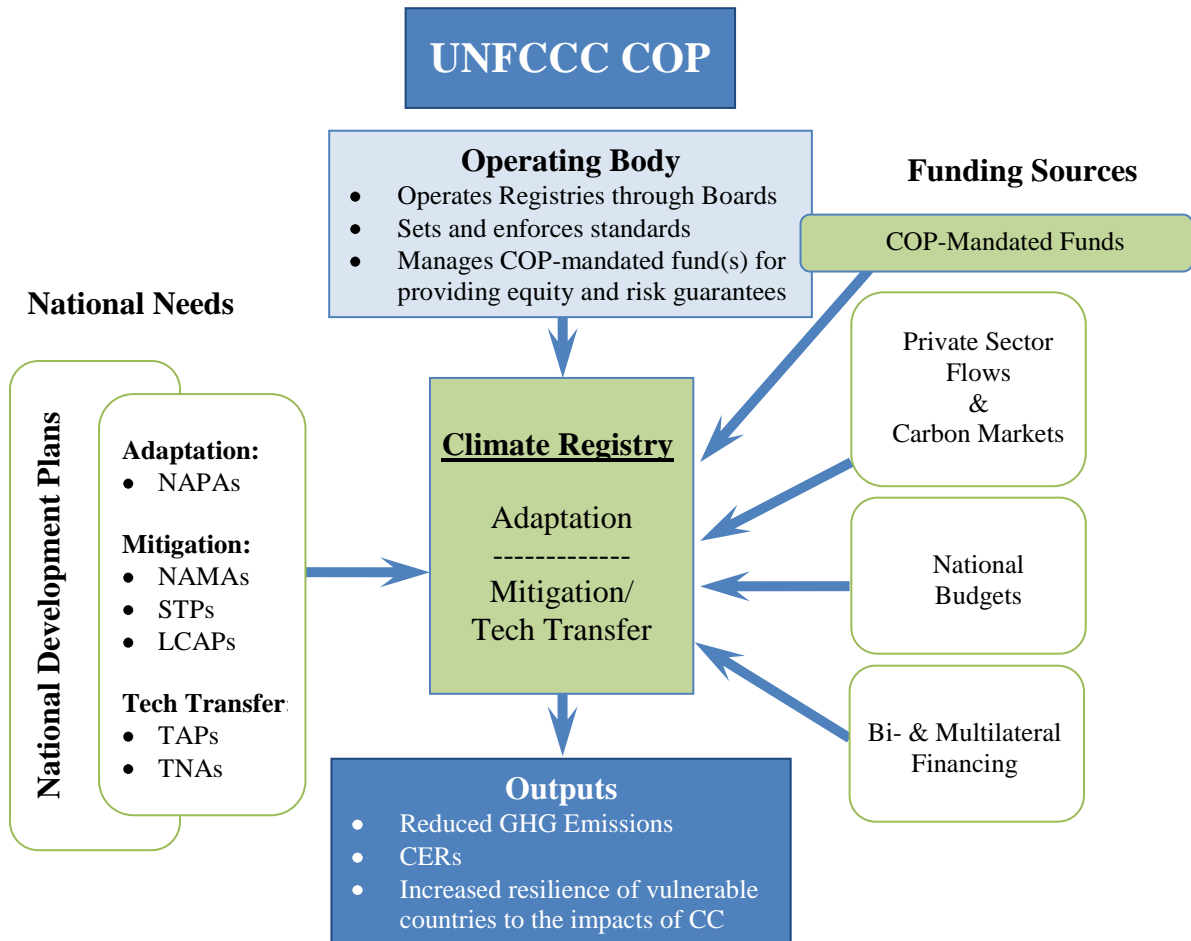
- It is a highly centralized system;
- Appears bureaucratic/ institution heavy and therefore creates efficiency and effectiveness issues
- Might provide no or negative incentives for non-COP mandated entities to engage in registry approach, depending on how the registries are set up
- Does not necessarily reverse the proliferation of non-COP mandated funding mechanisms for adaptation, mitigation and tech transfer
- There is a need to create 2, 3 or 4 operating bodies (main operating body, subsidiary bodies for adaptation, mitigation and tech transfer)
- It is not certain that existing COP-mandated institutions (AFB, GEF) have currently the capacity and institutional set-up to handle larger amounts of funds for adaptation and maybe mitigation (need for significant institutional reforms)
- Design does not provide incentives to and risks for engaging the markets and other private sector flows to change investment behavior

IV. The Compromise: The Climate Registry Option

The two options discussed above are premised on which Parties will gain or retain control over financial flows and less on how to unlock barriers to engage all sources of finance in an effective and efficient way to meet developing countries' needs. Admittedly, finding a balance between these two options as regards governing and managing financial flows is an important issue and compromise between the two perspectives will be imperative. However, the issue of financial control, from the perspective of the Technical Working Group, is subordinate to a more fundamental issue, namely, how can the architectural design encourage an unprecedented level of financial flows to ensure that the adaptation objectives and emission reductions targets agreed by the Parties can be achieved.

In approaching the issue from this perspective, the Technical Working Group found that it was possible to break out of the apparent standoff between the contributing and receiving country options while also finding ways of responding to main needs expressed by both groups. The key to designing the hybrid model (Figure 4) is defining the functions of a Climate Registry. While the concept of a registry has gained currency of late, many different understandings and applications of the term are in use. Given the central role of the registry, we underscore the fundamental functions it must carry out in order to facilitate the flow of resources.

Figure 4: The Climate Registry Option



The Registry can be considered a mechanism designed to align country needs with financial resources and expertise provided by contributing countries or made available from market sources. Through that alignment process, the Climate Registry will facilitate emission reductions at scale, it will generate certified emissions reductions (CERs) for developing country governments and private investors and it will increase the resilience of vulnerable countries to the impacts of climate change through adaptation measures.

The alignment process managed by the Climate Registry requires two distinct sets of inputs. The first of the inputs are statements of national objectives, needs and financing requests. Those statements and requests must be framed at the national level, through national adaptation, mitigation and technology transfer plans such as NAMAs, NAPAs, TNAs and Low Carbon Action Plans (LCAP). National development plans can and should include adaptation programs, sector transformation plans, and bundles of projects that will help shift the country to lower carbon vectors and increase their resilience to the impacts of climate change. Ultimately, these statements of national strategic plans to address climate change must be certified to be in compliance with standards set by the COP or its designated body so that these plans become eligible for financing from many potential funding sources. The COP must work out the details of how to establish those certification standards and how they are to be applied. However, what is clear is that to acquire status of formal registration, a national mitigation and adaptation plan, a sector transformation plan or a bundle of projects must indicate:

- Rigorous country and sector needs assessment with corresponding documentation;
- Strategic statement for sector changes, including identification of investment needs;
- MRV-able emission reduction targets;
- Phases of program implementation along with required financing in each phase and potential sources of financing in each phase;
- Identification of additionality costs clearly differentiated from standard business and investment costs; and
- National institution(s) that will be responsible for implementing and supervising all investments at the country level.

Once a NAMA, NAPA, LCAP, sector transformation plan and/or a bundle of projects linked to a national plan is certified by the operating body (or its Boards), it enters into the public registry domain where all interested parties, be they public or private, can enter into discussion or negotiation with the hosting country as regards the terms of financing. The function of the Climate Registry is to expedite, through the public pooling and sharing of information, the matching of needs of country governments and availability of financial resources and products offered by financing institutions. Through this pooling and posting of information, the Climate Registry serves as an international bulletin board that lists developing country programs and projects as integral parts of national climate strategies. Moreover, by requiring that all programs and projects meet clear certification standards, the Registry provides assurances to investors, again whether public or private, that MRV, fiduciary and transparency standards are embedded in investment packages.

The second set of inputs required by the Climate Registry is information about the flow of financial resources that can originate from many sources, both public and private. Information about four distinct sources of financing must be collected and pooled in the Registry: private

sector and carbon markets; national budgets; bi- and multilateral financing and financing from COP-mandated funds provided through public resources. The posting service provided by the Registry allows public institutions and private investors to align their specialized financial and technical products with the registered needs of individual countries. Once alignment between a developing country's stated needs and contributing country/private investor financial resources has been established, the registry will also function as a monitoring tool which displays the progress of the implementation of the agreement between the country and a funding source.

Several important clarifications are required to explain how the Registry will share information about financial flows originating from these four sources. First, one important source of financing for both mitigation and adaptation initiatives is public funding, that is, funds originating from public resources in contributing countries. Some of those public funds will have to be managed by the COP to ensure an equitable response to all developing countries needs. Without this equity mechanism, market dynamics alone would not attract investment capital to support national climate plans of many of the least developed countries. In addition, some public resources will be needed to absorb initial risks for private investors and to finance policy and institutional reforms that private investors will not finance. We cannot overemphasize the vital role that these public resources must play in creating stable, predictable and transparent conditions that will incentivize subsequent private sector investments. We have grouped these public funds under the rubric COP-mandated funds in that these funds will be managed by an Operating Body of the COP to ensure balanced and strategic outcomes in both mitigation and adaptation programs. Detailed information about the conditions and use of these public funds will be made available through the Climate Registry.

A second source of public funds originating in contributing countries is financing provided through bi- and multilateral development institutions. These financial resources can be managed through a wide range of windows and funds, some of which have been created quite recently, and can be channeled directly to recipient country governments (for example the Climate Investment Funds managed by the World Bank, the Cool Earth Fund established by the Government of Japan or the GCCA managed by the European Union). In keeping with public transparency requirements, complete information about these financial arrangements with developing countries will be made available through the Registry.

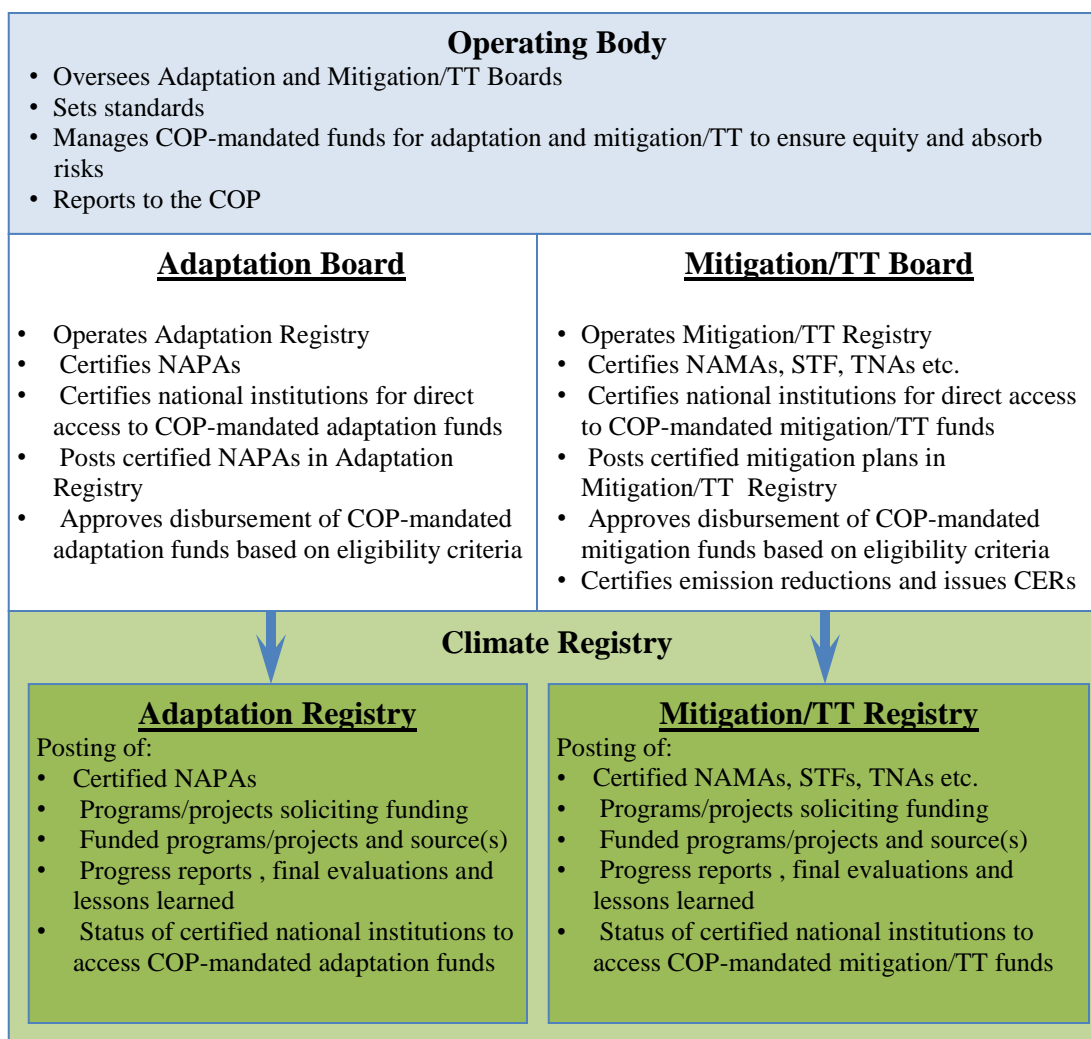
As regards financial arrangements involving private investors, there is no requirement that information about the terms of those operations be made public. The Registry only requires that notification be given and posted publicly as to which certified programs and plans are being financed. In this sense, the Registry itself has no 'approval' process for any financial transactions: only the host country government approves the proposed financing arrangement, thereby ensuring to its satisfaction, that its domestic conditions are fulfilled. The passage of a program or bundled projects out of the registry requires only notification that the solicited funding has been matched to a registered funding proposal. For instance, if, following successful negotiation with the host country government, a project bundle is financed by a business entity, the host country government notifies the registry that the project bundle can be removed from the list of programs seeking financing. Neither the government nor the financing agency needs to disclose the terms of the contract. However, the government remains responsible for meeting the

registered emission reductions in a MRV-able manner which will be reported back to the COP through National Communications.

Regarding information on national budgets, governments will provide information on government contributions to the implementation of the national mitigation and adaptation programs to demonstrate willingness and compliance with national emission reduction and adaptation commitments.

Our final discussion about the Climate Registry regards the specific functions and operations of the Registry's Operating Body. Please refer to Figure 5, Management of the Climate Registry, below.

Figure 5: Management of the Climate Registry



The Operating Body is the principal business entity of the COP in that it is mandated to deliver, through its operations, the Convention's agreed emission reductions and increased climate resilience in developing countries. To this end, the Operating Body's principal function is to oversee the Adaptation and Mitigation/TT Boards that, in turn, oversee management of their corresponding Adaptation and Mitigation Registries. As illustrated in Figure 5, these Boards have the following responsibilities:

- Operate their respective registries
- Certify NAMAs, NAPAs, STFs and other national submissions
- Certify national institutions for direct access to COP-mandated funds
- Posts certified mitigation and adaptation plans in corresponding registries
- Approve disbursement of COP-mandated mitigation and adaptation funds
- Certify emission reductions and issue credits

To avoid creation of new institutions, Parties could consider using the recently-created Adaptation Fund Board to serve as the Adaptation Board. In equal measure, Parties could consider reforming the Clean Development Mechanism Executive Board or reforming the GEF to become the Mitigation/TT Board.

A second important function of the Operating Body is to set standards that national adaptation and mitigation plans must meet to be certified in the Climate Registry. These certification standards must be set for national plans, sector transformation plans and other bundled project plans.

The Operating Body's third function is to manage the COP-mandated funds for adaptation and mitigation. As indicated above, these resources are to be managed by the Operating Body to ensure equity in the access of all developing countries to financial resources to support adaptation and mitigation programs. This is a critical function because, without an equalizing distributional mechanism, past experience has demonstrated that financial resources will flow to the largest, most sophisticated developing countries. In addition, managing public resources channeled through COP-mandated funds is absolutely critical in absorbing business risks that the private sector will not absorb; it is equally critical to provide resources for additional costs associated with creating enabling conditions such as policy, institutional and regulatory reforms.

In closing this discussion about the management of the Climate Registry, we remind the reader that the Operating Body sets the certification standards for national mitigation and adaptation plans. Moreover, we have suggested that the Mitigation/TT Board certifies emission reductions and issues corresponding CERs. In this proposed arrangement, the Mitigation Board is the only body that can issue CERs, thus granting it exclusive CER issuance power. Through this arrangement, private investors and public institutions alike will be obliged to register their investments with the Mitigation Registry if they wish to receive CERs. Without this obligatory registry process, there is little or no incentive for investors and financial institutions to channel resources into responding to countries' needs in a harmonized, strategic manner. Absent a registry process and exclusive CER issuing power, the international community will encourage an uneven, disjointed and inequitable funding arrangement with little, if any, semblance of strategic direction and coherence in fulfilling Convention goals.

Pros and Cons for the Climate Registry Option

Pros:

- Can handle large COP mandated funds
- Can attract/leverage large, non-COP mandated funds
- Uses public resources to absorb financial risk that will attract funds from a broader sources of financing
- Proposes a more formalized mechanism to match country needs with financing options
- Assures equity in that low capacity countries will receive COP-mandated funds to increase national capacities
- Captures most sources of finance in organized way
- Provides incentives to increase investment and engagement commitments
- Provides assurances with contributing countries but can have strong legitimacy with developing countries

Cons:

- Some new institutional arrangements needed: At least one operating body needed to manage windows for adaptation and mitigation
- It is not clear what decisions are reserved for the COP and which reside with the Climate Registry
- Roles of AFB/GEF need to be re-defined
- There are risks associated, including potential of being too bureaucratic
- Stakeholders may find it difficult to judge a-priori what type of system and which balance of COP-/ non-COP mandated funding they are agreeing on.
- Transparent and early definition of registry functions is essential.

V. Recommendation to the Parties

The Technical Working Group sees all three options as technically viable if critical design elements are carefully defined and faithfully implemented. All three options bear the risk of failure if each system's critical design elements are defined or implemented inappropriately. The political viability of options 1 and 2 may be constrained because of their somewhat unbalanced emphasis on contributor or recipient country needs.

Critical design features in option 1 include the clear definition of the competences of the Advisory Board, the enhanced role of existing planning and reporting mechanisms, the definition of specific objectives and criteria for climate finance and the existence of a robust sanctioning mechanism for Parties not meeting their obligations. Option 2 would depend above all on an effective and efficient management of the operating entities as well as the rapid expansion of qualified implementation capacity at all levels.

The Technical Working Group recognizes the urgency of encouraging convergence on one model as we approach the Copenhagen conference. As a Technical Working Group composed of representatives from contributing and recipient countries dedicated to finding a middle ground between the two polarized positions, we believe that "The Climate Registry Option" may best reflect the needs and priorities of developed and developing countries. At the center of that compromise is a transparent, responsive Climate Registry that allows all countries to align their needs and priorities with the diverse sources of climate financing. Management of that Registry is housed in a light, efficient operating body under the authority or guidance of the COP. The Registry is designed to be incentive-based and responsive to promoting fundamental changes in the economies of developing countries. Its exclusive issuance of CERs provides a powerful incentive to public and private funders to coordinate financial transactions through its information posting mechanism.

We recommend that Parties focus on a framework to deliver the volume of financing needed from public and private sources in order to meet the global community's goal. With that new imperative as the prize, issues of control and protecting specific institutional schemes can give way to compromise and workable option similar to the one we have suggested.

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