



FINANCE: DESIGN ISSUES AND OPTIONS

This paper aims to provide a high-level overview of issues and corresponding options related to new financial arrangements under the UNFCCC. It focuses on: 1) the structure of a new climate fund; and 2) broader architectural issues, including the matching of support with action. The paper is not intended to propose or preclude any specific options.

Overarching issues include:

- What issues need to be resolved in Cancun, and what can be deferred?
- How can parties achieve the right balance between centralized decision-making and donor/recipient autonomy?
- What is the role of existing mechanisms as the financial architecture evolves?

CLIMATE FUND

Activities eligible for finance

- Development and implementation of NAMAs
- Technology deployment
- Technology research and development
- Adaptation planning and implementation
- Capacity-building
- REDD-plus activities

Funding Sources

- Funding commitments
 - on the part of:
 - Developed countries
 - Developed and developing countries (except LDCs)
 - Countries meeting (initially or over time) agreed criteria
 - apportioned through:
 - Multi-year replenishment
 - Agreed formula (e.g., UN scale of assessment, indicators such as GDP, per capita GDP, per capita emissions, etc.)
- Funding pledges
 - Ad hoc unilateral
 - Collective multi-year pledging
 - Based on an indicative scale
- Levy on emissions-generating activities or products (e.g., bunker fuels)
- Levy on international emissions trading
- Auction of international emission allowances (e.g., a portion of each parties' allowances, or allowances for international aviation and marine emissions)
- Financial transactions tax
- IMF Special Drawing Rights

Institutions

- Governing body
 - Relation to UNFCCC
 - Appointed by and under authority of the COP
 - Independent; under guidance of and accountable to the COP
 - Composition
 - Decision-making procedures
- Secretariat
 - UNFCCC
 - World Bank or other MDB
 - Global Environment Facility
 - Independent
- Trustee
 - World Bank or other MDB
 - Commercial financial institution

Cost Basis

- Agreed full incremental costs
- As needed

Modes of Access

- Via a multilateral implementing entity
- Via a national/regional implementing entity
- Direct payment to a country's national budget

FINANCIAL ARCHITECTURE

Finance for NAMAs

- Eligibility
 - Submission/technical analysis of proposed NAMA to registry
 - Submission/approval of low-emission development plan
 - Per criteria of funding entity

- Matching
 - Recipient countries seek funding directly from bilateral/multilateral sources
 - Registry
 - Use
 - Required
 - Optional
 - Role
 - Centralized listing facilitating matching among NAMA proponents and supporters
 - Active matching of proposed NAMAs and support

Coordination of operating entities

- Funds operate on the basis of guidance from the COP, advised by:
 - Finance Board
 - SBI
 - Thematic bodies
- Funds operate on the basis of guidance from the COP and confer regularly among themselves on issues of concern
- Funds operate on the basis of guidance from the Finance Board, acting on behalf of the COP

Defining climate finance

- Could include:
 - Public finance
 - Multilateral
 - Funding through UNFCCC financial mechanism
 - Funding through other multilateral mechanisms
 - Bilateral
 - Climate funds through bilateral programs
 - ODA with a climate co-benefit
 - Funding for offsets
 - Export supports

- Private finance
 - Carbon finance through multilateral and/or bilateral mechanisms
 - Climate-related FDI
 - Climate-related philanthropic activities
- Criteria
 - Set by COP
 - Set by Finance Board
 - At discretion of donors

Prioritization of needs (e.g., mitigation, adaptation, capacity-building)

- COP or Finance Board allocates to various funds, with advice from thematic bodies
- COP or Finance Board adopts broad targets or criteria to guide funds and bilateral donors
- Funds/donors set priorities collectively
- Funds/donors prioritize individually

Ongoing assessment

- Focus
 - How well flows match finance targets and priorities
 - New information on finance needs
 - Effectiveness and efficiency of funds and financial arrangements
- Body
 - Existing body (e.g., SBI)
 - Finance Board
 - Panel of experts appointed by COP