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UNFCCC AWG/LCA Finance Negotiations

Second Reading Digest

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Table of Contents

Introduction ***1***

1. Objectives, Scope and Guiding Principles, ... ***1***

1.1. Objectives **1**

1.2. Role of the UNFCCC **1**

1.3. Guiding Principles **2**

1.3.1. Revenue Raising Principles 2

1.3.2. Disbursement Principles 2

2. Provision of financial resources and Funding Activities ***4***

2.1. Principles **4**

What Sort of Financial Resources? 4

Who is to generate international funding? 4

2.2. Sources of financial resources. **4**

2.2.1. Assessed Contributions 4

2.2.2. Carbon Market Contributions 5

2.2.3. Other Proposals 5

2.2.4. Miscellaneous Provisions 5

3. Institutional Arrangements ***6***

3.1 The Original G77 Proposal **6**

3.2. The Indian Version of the G77 Proposal **6**

3.3. A Financial and Technology Mechanism **7**

4. Funds ***8***

4.1 AOSIS Adaptation Fund **8**

4.2 Multilateral Climate Technology Fund **9**

4.3. REDD-plus **9**

4.4. Other Single Purpose Funds **9**

4.4.1. Impacts of Response Measures 9

4.4.2. Global Feed-in-tariff Programme 10

4.4.3. Risk Management Mechanism 10

4.5. Multi-purpose Funds **10**

4.5.1 World Climate Change Fund 10

4.5.2. Multilateral Fund for Climate Change 10

5. Supporting Nationally Appropriate Mitigation Actions ***11***

Introduction

The aim of this report is to provide a 'digest' of the text on ***enhanced action on the provision of financial resources and investment*** that resulted from its second reading during the 6th session of the AWG/LCA in Bonn in June 2009.

As such it is based on the negotiating text, but includes inevitable editorial changes, selections and omissions. In other words, it is only meant to give a rough idea of the sort of issues that are included in the text, it is by no means meant to serve as a substitute. Also, the digest is based only on the negotiating text, which means that it inevitably misses out proposals that have not (yet) been included in it.

The overall structure of this digest follows that of the LCA text. The sub-divisions, however, do not necessarily reflect those of the original text.

Some of the language is identified by the authors as having originated with certain Parties or Party Groupings. These identifications are not part of the original text and are based solely on best guesses by the authors.

1. Objectives, Scope and Guiding Principles,

1.1. Objectives

(a) The objective is to establish the financial mechanism of the Convention in accordance with UNFCCC Article 11 with structure that meets the requirement laid down under article 11.1 and 11.2 of the Convention.
(b) The Financial Mechanism shall enable, enhance and support mitigation and adaptation actions by developing country Parties through the provision of financial resources to meet the agreed full incremental costs of such actions including the cost of technology transfer.
(c) The objective of the provision of financial resources is to
   i. promote equity and justice so that the ultimate objective of the Convention can be achieved.
   ii. further enhance the full, effective and sustained implementation of the UNFCCC and Bali action plan on grant basis and to reach a positive outcome.

1.2. Role of the UNFCCC

(a) The COP, as the supreme body of the Convention, shall exercise its authority over and provide guidance to the financial mechanism, and shall decide on its operation, and on the policies, programme priorities and eligibility criteria for financing purposes.
(b) The Financial Mechanism shall
   i. be underpinned by the principles of equity and common but differentiated responsibilities;
   ii. fulfill the implementation of the commitments contained in articles 4.3, 4.4, 4.5, 4.8 and 4.9 in the context of Article 4.7 of the Convention;
   iii. be guided by full transparency, fairness, predictability, stability , feasibility, adequacy, inclusiveness, efficiency and effectiveness, and the equitable and balanced representation of all Parties;
   iv. shall function under the authority and guidance of, and be fully accountable to the COP,

(c) The COP shall decide on shall decide on its policies, programme priorities and eligibility criteria, in order to ensure coherence in the global financial architecture and reduce fragmentation in the implementation of the Convention;

1.3. Guiding Principles

1.3.1. Revenue Raising Principles

Who should contribute?

The most common reference, borrowed from UNFCCC Art. 4.2 is to "developed country Parties and other developed Parties included in Annex II"

What should they contribute?

Adequate, new and additional (to ODA), timely, predictable and sustained resources.

How much? Between 0.5 and 1 percent of GDP.

Consolidated versus Fragmented Funding:

(a) Parties may provide financial resources through bilateral, regional and other multilateral channels for actions carried out in fulfillment of the objectives of this Agreement. These financial resources shall be deemed as contributing to the fulfillment of the financial commitments of this Agreement.
(b) Financial resources provided through bilateral, regional, and other multilateral channels or under mechanisms/institutions outside the Convention shall not be regarded as fulfillment of commitments

Private versus Public Sector Funding

(a) The public sector shall be the (major) source of funds, while market mechanisms and other private-sector sources would play a complementary role in addressing climate change.
(b) Public finance should leverage private investments and provide incentives for additional efforts and be directed towards areas that cannot be adequately financed by private sector, in particular for adaptation. Private funding should, via appropriate policy frameworks be the main source of necessary investments for mitigation.

1.3.2. Disbursement Principles

Who should get funding?

(a) Developing Countries
   i. in accordance to Articles 4.3, 4.4 and 4.5 of the Convention.
   ii. that are particularly vulnerable to the adverse effects of climate change, especially the least developed countries (LDCs) small island developing States (SIDS), and countries in Africa affected by drought, desertification and floods;
   iii. with priority for support to poorest countries and those most vulnerable to the adverse effects of climate change and least able to adapt

(b) All parties that meet specified criteria shall be eligible to access the financial resources. The criteria set should be based on:

   i. National and regional ***development priorities***;
   ii. Natural and geographical characteristics; ***resource endowment***;
   iii. Relative ***size of the economy***;

iv. Economic and technological ***capacity***;
v. Position on the ***human development index***.
vi. Being ***eligible to borrow from the World Bank*** (IBRD and/or IDA) or to be an eligible recipient of UNDP technical assistance through its country Indicative Planning Figure (IPF);

(c) Access to funds by Parties shall be inversely proportional to their ***contribution to greenhouse gases*** in the atmosphere;

(d) Countries with unique ***biodiversity***, tropical glaciers and ***fragile ecosystems***;

(e) Particularly vulnerable ***populations***, ***groups*** and ***communities***, especially the poor, women, children, the elderly, indigenous peoples, minorities and those suffering from disability;

What should be covered?

(a) Funds shall be allocated for ***adaptation***, ***mitigation***, ***technology transfer*** and ***capacity building***, in a ***balanced manner***;

(b) Prioritization on ***adaptation*** is important;

(c) ***Agreed full incremental cost*** coverage should be provided for

i. Adaptation technologies and stand-alone adaptation projects;
ii. Preparation of national adaptation action plans;
iii. Implementation of NAPAs;
iv. Resilience-building activities based on vulnerability assessments, including for sustainable livelihood, sustainable agriculture, building community capacities and infrastructures, access to technologies and innovations, etc.

(d) Priority consideration should also be given to ***ecosystem-based adaptation*** activities;

(e) Full and effective ***repayment of climate debt***, including historical emissions and adaptation debt, by developed to developing countries;

(f) Financial resources shall be provided for the implementation of ***concrete actions***;

Other Issues

(a) Delivery of financial resources should:

i. be based on a ***programmatic approach*** (using a project approach when appropriate)
ii. ensure the involvement of recipient country on the stages of identification, definition and implementation of the programmes (be ***host country-driven***)
iii. be ***efficient***;

(b) Financial resources could be provided in a variety of forms:

i. as ***grants***
ii. as ***concessional loans***
iii. as ***guarantees***

(c) ***Direct Access*** should be enabled;

(d) Financial resources should ***not crowd out private investment*** or create ***market distortions***.

(e) Financial resources shall be provided as grants ***on a full cost basis*** for LDCs and SIDS

(f) ***Coherence*** and ***coordination*** between financing under the guidance of the COP and various financial mechanisms and individual funds should be encouraged and facilitated in order to ***reduce fragmentation***, strengthen synergy and build on their comparative advantages

(g) Support for technical assistance to build the readiness of developing countries on ***accessing larger pools of financing*** shall be provided;

(h) ***Existing institutions*** should be utilized more efficiently.

2. Provision of financial resources and Funding Activities

2.1. Principles

(a) ***All Parties*** shall implement and periodically report on policies and instruments used to mobilize ***public and private financial resources***.

(b) All Parties shall take measures, according to their ***respective capabilities***, to generate and lever additional public and private funds.

(c) The generation of financial resources shall be guided by the principles of the Convention, in particular the principles of ***common but differentiated responsibilities***, ***respective capabilities***, on the basis of ***equity***, and shall take into account the consideration of ***historical responsibilities*** and the ***right to development for developing countries***.

WHAT SORT OF FINANCIAL RESOURCES?

(a) ***Scaled-up***, ***new and additional over and above existing ODA commitments***, ***sustainable, adequate***, ***predictable*** and ***stable*** financial resources.

(b) The ***public sector shall be the major source of funds***, while market mechanisms and other private sector sources would play a complementary role in addressing climate change.

WHO IS TO GENERATE INTERNATIONAL FUNDING?

(a) ***Developed country Parties*** and other developed Parties included in ***Annex II***.

(b) Annex II Parties and other Parties ***according to agreed criteria***, which shall be updated through a periodic review.

(c) ***Annex I*** Parties.

(d) ***All Parties*** except LDCs based on an agreed set of criteria, reflecting the ability to pay and emissions.

2.2. Sources of financial resources.

2.2.1. ASSESSED CONTRIBUTIONS

(a) ***Developed country Parties*** shall make assessed contributions by a percentage of their annual GNP, e.g. 0.5 to 1%, in addition to the existing ODA;

(b) ***Mexican Proposal.*** Contributions from all Parties based on a contribution formula developed by the COP (or Conference of Parties serving as the assembly of Parties).

Criteria for such contributions shall be based on respective capability and historical responsibility for emissions;

2.2.2. Carbon Market Contributions

(a) ***Norwegian Proposal.*** A mechanism for financing climate change actions by monetizing emission allowances through auctioning is hereby established. This mechanism implies that a ***certain proportion of the total number of emission allowances*** under the Copenhagen Agreement is held back and ***auctioned at the international level***. Revenue generated by this mechanism ***will contribute to the fulfillment of financial obligations under the Convention of those countries taking on quantified emission reduction commitments***;

(b) A share of proceeds of 2 per cent on ***CDM*** and 8 per cent on ***joint implementation*** and ***emissions trading*** and new sectoral market-based mechanisms under the Kyoto Protocol;

(c) Share of proceeds from measures to ***limit or reduce emissions from international aviation and maritime transport***;

2.2.3. Other Proposals

(a) ***LDC Group Proposal***. An international air passenger adaptation levy (IAPAL) on air fares. The levies from the international air passenger adaptation levy (IAPAL) on airfares shall be managed under the Convention Fund and will be allocated to the Adaptation Window. The COP should initiate a process to develop and implement an operational modality to manage the funds generated through IAPAL.

(b) ***Swiss Proposal.*** A ***uniform global carbon levy*** of USD 2 per tonne of CO2 for all fossil fuel emissions, with a tax exemption of 1.5 tCO_2 per inhabitant;

(c) A global 2% levy on ***international financial market transactions*** to Annex 1 Parties.

(d) Mobilization of international resources and ***debt relief*** that shall contributed significantly to ensure mitigation and adaptation of climate change at all levels, especially in developing countries. Innovative sources of finance, including implementation of the principle, ***external debt swap/relief*** for sustainable development of developing countries originated from ODA and other bilateral/multilateral sources, or usage of ***special drawing rights*** for sustainable development shall be further explored.

2.2.4. Miscellaneous Provisions

(a) Penalties or fines on non-compliance of developed country Parties with their emission reduction and financial resources technology transfer and capacity building commitments.

(b) Any funds pledged outside the UNFCCC ***shall not be regarded as the fulfillment of commitments*** by developed country Parties for the implementation of Article 4.3 of the Convention and the Bali Action Plan;

3. Institutional Arrangements

3.1 The Original G77 Proposal

(a) Institutional arrangement shall be established for the operationalization of an effective financial mechanism under the COP. An international operating entity shall entrusted with the operation of the financial mechanism referred to in Article 11. The international operating entity of the financial mechanism shall be supported by a Secretariat, a Scientific Advisory Panel, a Monitoring and Evaluation Panel, and a Trustee or Trustees;

(b) The institutional arrangements shall also include a ***Convention Adaptation Fund***, a ***Mitigation Fund***, a ***Multilateral Technology Acquisition Fund*** and a ***Capacity Building Fund***. Innovative financial instruments, e.g. a ***Venture Capital Fund*** and a ***Climate Insurance Fund***, could be developed and ***integrated into the financial mechanism***, for addressing risks associated with climate change.

(c) The governance of these Funds should be under the ***authority and guidance of the COP*** with equitable and balanced representation of all Parties in a transparent and efficient manner. The Funds should be managed with easy accessibility and low administrative cost.

(d) The financial mechanism shall ***facilitate linkages*** between ***various funding sources*** and ***separate funds*** in order to promote access to a variety of available funding sources and reduce fragmentation. Modality/ies of determining the role of existing funds and entity/ies for the operation of the mechanism shall be developed.

3.2. The Indian Version of the G77 Proposal

(a) The Financial Mechanism, established under the Convention, will be managed by an ***Executive Board*** appointed by the COP in accordance with the Convention. The Executive Board shall have an equitable and balanced representation of all Parties within a transparent system of governance and shall function under the guidance of and be accountable to the COP which shall decide on its ***policies***, ***program priorities*** and ***eligibility criteria***. The Executive Board will be supported by a ***professional Secretariat***.

(b) The Financial Mechanism, established under the Convention, shall have ***separate specialized windows*** for funding projects, programs and actions aimed at mitigation, adaptation and technology transfer. Each of the funding windows shall be assisted by a specialized ***thematic assessment unit***. The thematic assessment units shall be under the authority of the Executive Board and, together with the professional secretariat of the Executive Board, shall ***constitute the operating entity of the Financial Mechanism***.

(c) The Funding provided by the Financial Mechanism established under the Convention should be ***demand driven*** and enable direct access to funds by the ultimate beneficiaries.

(d) A ***Trustee selected through open competitive bidding*** among reputed pre-qualified institutions would administer the funds of the Financial Mechanism established under the Convention.

(e) The ***national entities, designated by the developing country Parties***, shall ***approve funding for projects, programs, actions,*** subject to the guidelines and procedures established by the specialized thematic assessment units duly approved by the Executive Board. The thematic assessment units under the Executive Board shall carry out the relevant assessments for disbursement of funds to the designated national entities under their respective specialized funding windows.

(f) A ***transparent, efficient and competitive procurement regime*** with conditionalities limited to those warranted by prudent fiduciary norms and the MRV regime foreseen under Decision 1/CP 13 should characterize funding from the Financial Mechanism established under the Convention.

(g) The Financial Mechanism established under the Convention shall manage a ***certification and registry system*** for receiving and deploying financial resources to enable developing country Parties ***to count their financial contributions*** and technology support ***towards compliance of their commitments under the Convention*** and under paragraph 1(b) (ii) of Decision 1/CP 13.

(h) The designated national funding entities could also accept contributions directly, as per guidelines agreed in the COP, from and facilitate linkages with other private or official national, regional, sub-regional, international bodies and/or stakeholders that may seek to implement actions relating to mitigation, adaptation and technology transfer and related activities directly.

(i) The Executive Board of the Financial Mechanism, with approval of the COP, shall institute suitable ***external independent oversight*** as well as ***internal monitoring and evaluation*** of the management and operation of the Financial Mechanism established under the Convention.

(j) The resources of the Financial Mechanism established under the Convention shall be used to meet the costs associated with the functioning of the Executive Board, the Secretariat and the thematic assessment units, subject to the approval of the COP.

(k) Institutional arrangements for the operation of the financial architecture have the following functions including, inter alia:
   (i) ***assessment of needs for financial resources*** for the fulfilment of this Agreement;
   (ii) ***effective use of resources***, including those generated under paragraphs x;
   (iii) ***coordination of financial resources***, including those generated under paragraphs x for the fulfilment of this Agreement;
   (iv) ***measurement, reporting and verification*** / ***monitoring and review***.

(l) The institutional arrangements shall be periodically reviewed to assess its fulfilment of these functions.

3.3. A Financial and Technology Mechanism

(a) Institutional arrangements for enhancing the implementation of Article 11 of the Convention, shall include the creation of a ***Financial and Technology Mechanism*** to address all aspects of cooperation on technology research, development, diffusion, and transfer. The ***basic architecture*** of the Financial and Technology Mechanism under the Convention will comprise ***two convention funds***, one on adaptation and the other on mitigation. Each of these will be governed by an ***Executive Body***

(b) The EBs shall organize, coordinate, monitor and evaluate the implementation of comprehensive frameworks for adaptation and mitigation, respectively, including the enabling means of financing, technology and capacity building.

(c) The ***Executive Body on Finance and Technology for Mitigation*** shall coordinate disbursements from the Mitigation Fund according to the needs as indicated in NAMAs submitted by developing countries. The ***Executive Body on Finance and Technology for Adaptation*** will guide and supervise the ***disbursement of the Adaptation Fund***, according to the needs indicated in national plans for adaptation.

(d) Financial and technical support should be available upon request by developing countries to the EBs for ***elaboration of national plans for adaptation***, of ***NAMAs*** and the preparation of ***REDD+ activities***.

(e) The EBs shall manage a ***certification system for receiving financial resources*** in compliance with the financial commitments of developed country Parties under Article 4.3 of the Convention.

(f) The EBs shall articulate technology transfer and financing mechanisms under the Convention with other United Nations organizations, multilateral financial institutions established under bilateral or multilateral development programs and other relevant international forums not directly related to climate change, with the assistance of technical panels to be created.

(g) The EBs will be supported by ***nine technical panels*** of government representatives***,*** namely one each on ***Research and Development***, ***Capacity Building***, ***Transfer of Technologies*** for both ***Adaptation and Mitigation***, and panels on ***observation systems and information management for adaptation***, ***REDD+***, and ***Carbon Market Mechanisms***.

(h) The UNFCCC Secretariat shall support and facilitate the activities of the EBs and the technical panels.

4. Funds

4.1 AOSIS Adaptation Fund

(a) The purpose of the Convention Adaptation Fund is to provide new, additional and predictable financial resources to developing countries particularly vulnerable to climate change especially Small Island Developing States and Least Developed Countries, to meet the ***full costs incurred in adapting to the adverse impacts of climate change***;

(b) The Convention Adaptation Fund shall function under and be accountable to the Financial Mechanism under the Convention. It shall be managed by a ***geographically balanced and representative Governing Board***. The Board shall ensure that the Convention Adaptation Fund adheres to ***sound financial management and transparency***.

(c) The Convention Adaptation Fund shall fund, *inter alia*, the ***implementation of national and regional adaptation plans and strategies***, ***concrete adaptation projects*** and ***strategies*** including those contained in national communications, as well as a multi-window mechanism to address ***loss and damage***.

(d) The Convention Adaptation Fund shall be financed from:

    i. an ***assessed contribution*** from each country listed in ***Annex II*** of ***0.5%*** of their GDP, additional to existing ODA commitments;
    ii. an agreed ***share of the proceeds from new market-based mechanisms*** developed under the Convention:

iii. ***international levies***, as appropriate;
iv. ***voluntary contributions***;
v. contributions from the ***Kyoto Protocol Adaptation Fund***.

(e) Access to financing under the Convention Adaptation Fund for developing countries particularly vulnerable to the adverse impacts of climate change shall be ***direct and simplified***.

4.2 Multilateral Climate Technology Fund

(a) A Multilateral Climate Technology Fund for the provision of technology-related financial resources on a grant or concessional basis shall be established.

(b) The fund shall be used to provide stakeholders, especially owners of patented climate friendly technologies, with incentives to implement the ***development, deployment, diffusion and transfer of technologies*** by meeting the ***full incremental costs*** for, inter alia, licensing IPRs, the deployment and diffusion of technologies in developing countries and ***full costs*** of activities such as ***technology R&D*** and ***demonstration*** of technologies, ***capacity-building***, technology ***needs assessments***, ***know-how and information sharing*** and construction of ***national policy instruments.***

4.3. REDD-plus

(a) The ***readiness activities phase of REDD-plus actions***, and the subsequent policy implementation and demonstration activities phase, should be supported through one or more of the following sources:
   i. A ***readiness fund*** established under the COP to support capacity-building, technology transfer, policy implementation and institutional arrangements.
   ii. REDD-plus ***readiness windows*** of the relevant Convention funds
   iii. ***Auctions of allowances*** for implementation of national policies and measures.
   iv. Limited access to the ***market for emission reductions*** achieved by demonstration activities.

(b) The ***full implementation phase of REDD-plus activities*** in developing countries, including early actions, should be supported by
   i. use of ***public funds*** (through e.g. a ***specialized fund*** or ***funding window*** established under the COP, trust funds for community forestry accounts, and/or a ***forest reserve fund*** for conservation and sustainable forest management);
   ii. use of markets, such as ***access to the carbon market***;
   iii. a ***combination of market approaches and funds***.

4.4. Other Single Purpose Funds

4.4.1. Impacts of Response Measures

A Special fund to assist Countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products (Art. 4.8 (h) of the Convention).

4.4.2. Global Feed-in-tariff Programme

Establish a global fund to support a global-feed-in-tariff programme, providing guaranteed purchase prices, over and above the retail energy price in the developing countries, of energy from renewable sources including wind, solar PV, concentrated solar, geo thermal, hydro and others, to the producers of such energy in the developing countries for a period of 20 years.

4.4.3. Risk Management Mechanism

(a) A multi-window mechanism for ***risk reduction, management and sharing*** is established. It is to consist of three components:

i. A ***risk management and prevention component*** to promote risk assessment and risk management tools and strategies at all levels, with a view to facilitating and supporting the implementation of risk reduction and risk management measures;
ii. An ***insurance component*** to address climate-related extreme weather events, and risks to crop production, food security and livelihood;
iii. A ***rehabilitation and compensation component*** to address progressive negative impacts that result in loss and damage.

4.5. Multi-purpose Funds

4.5.1 World Climate Change Fund

(a) A world climate change fund or green fund, to scale-up funds for ***mitigation actions***, support efforts on ***adaptation*** and provide ***technical assistance*** that include financing the national meteorological services particularly in LDCs and SIDs ***to enhance development and establishing of early warning systems*** and promote the development , transfer and diffusion of clean technologies.

(b) ***All Parties*** with the exception of the LDCs ***should contribute*** according to specified criteria***. All Parties could benefit*** according to specified criteria, except those developed country Parties that elect not to do so.

4.5.2. Multilateral Fund for Climate Change

(a) A Multilateral Fund for Climate Change is established with the purpose to generate, administer and deploy substantial and predictable sources of funding to support actions prescribed within this agreement.

(b) The Multilateral Fund for Climate Change shall be subject to the ***authority and guidance of the COP*** and be ***supervised by a Board***, selected by the COP and be guided by the principle of equitable geographical representation, to which it shall regularly report. The Board shall be serviced by the UNFCCC Secretariat.

(c) The Multilateral Fund for Climate Change shall have five discrete funding windows:

i. a ***mitigation*** window;
ii. a ***REDD*** window;
iii. an ***adaptation*** window;
iv. an ***insurance*** window;
v. a ***technology*** window.

(d) The COP shall determine the ***proportion of funding that shall be allocated to each funding window*** and shall give priority to funding for adaptation.

(e) The Board of the Multilateral Fund for Climate Change shall establish ***technical advisory panels*** for each of the funding windows, in order to, *inter alia*:
   i. identify sources of funding;
   ii. identify priorities for funding;
   iii. provide assistance to recipient countries in developing project proposals and find appropriate financial support.

5. Supporting Nationally Appropriate Mitigation Actions

The mechanism(s) for registering and facilitating implementation of NAMAs in the context of financial, technology and capacity-building support shall serve as a functional "window" to mechanism(s) for finance and technology under the Convention;

A ***NAMA register shall be established*** (as part of the Financial Mechanism/UNFCCC Secretariat) to facilitate the identification, mobilization of support required to implement NAMAs by developing country Parties and enable international recognition and communication of such actions.

Developing countries may register their NAMAs on a voluntary basis. Once a NAMA is registered and approved by a technical panel, the provision of financial resources and technology transfer shall become automatic

International financial and technology support for NAMAs will come from a range of sources mobilized by the financial and technology mechanism(s). A set of criteria will be developed to ensure that the funds are spread evenly, ensuring equity, and a fair distribution of benefits and an even spread across all economic sectors.

Financial resources from Annex I Parties shall be measured, reported and verified when provided to the Financial Mechanism. Technology transfer and capacity-building shall be measured, reported and verified during the course, and following the completion, of the associated NAMA.

NAMAs by developing countries shall be supported on the basis of:
- agreed full cost for enabling activities; and
- agreed full incremental cost for implementation of NAMAs.

The provision of financial resources and technological transfer for matching action to support shall be undertaken in such a way as to maximize cost-efficiency and strengthen financing for actions. To this end, the financial and technology transfer mechanisms under the convention will play a lead role. The level of mitigation effort by developing countries shall be commensurate with the level of financial resources and technology received.

A ***support and accreditation mechanism*** shall be established with the functions of:

- Registering and pooling all pledges for voluntary mitigation actions by developing countries,
- Providing a platform for matching NAMAs with financial and technology support and with the provision of emission reduction credits for those actions;

The support and accreditation mechanism shall facilitate the implementation of NAMAs through:

- “The support path”, involving direct financial and technological support by developed countries, channelled through the financial and technology mechanism(s) of the Convention;
- “The accreditation path”, involving provision of emission reduction credits for NAMAs.

Developing countries may choose one or both of the above “paths” to implement NAMAs. Developing country Parties shall decide when the level of support from both sources mentioned above is sufficient for the implementation of a proposed NAMA. They retain the right to delay implementation of the proposed NAMA if they consider the level of support insufficient.

A ***coordinating mechanism*** shall be established with the functions of matching action to support, in such a way as to maximize cost-efficiency and to strengthen financing for NAMAs, taking into account the capabilities of each country.

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