



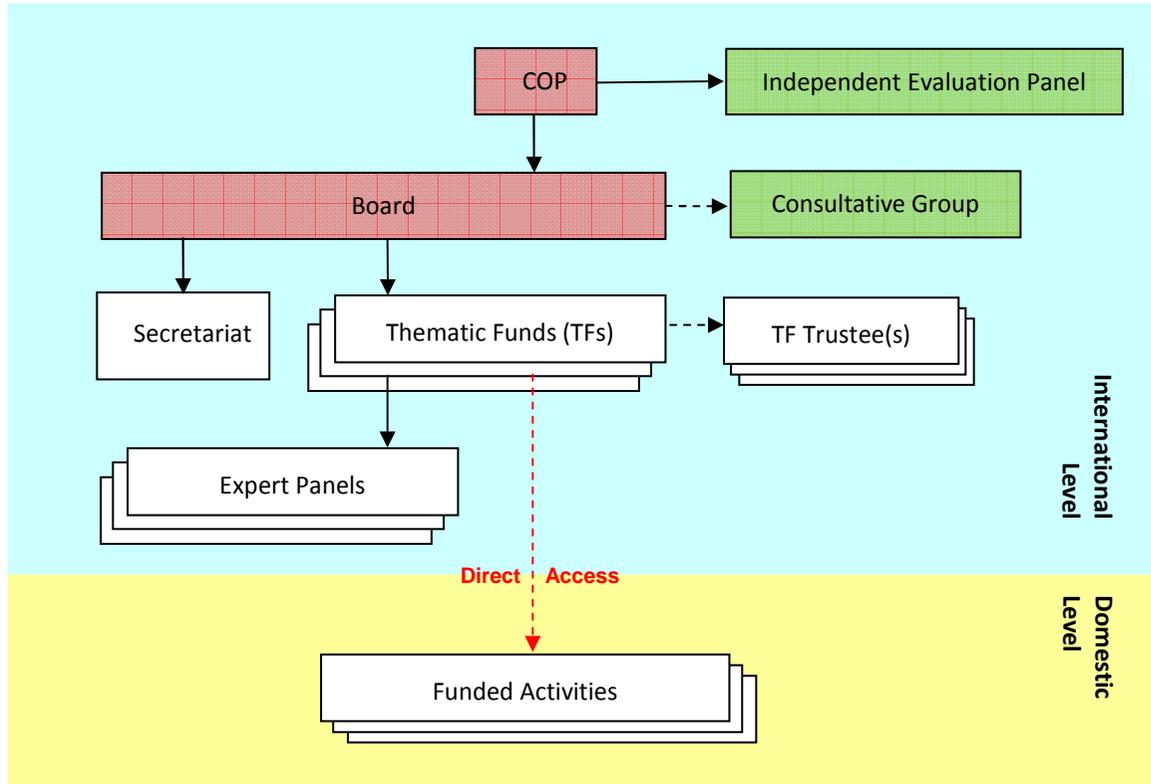
Oxford Institute for
Energy Studies

The UNFCCC Financial Mechanism: Reform of the Institutional Architecture and Governance

Benito Müller and Luis Gomez-Echeverri



G77+China/Indian Proposals



Key Design Principles

COP Authority

Demand Driven

Independent Oversight

Legend:

Governance Relation ('under the authority of')



Contractual Relation (MOU or contract)





Principles

G77+China Submission

Equity

- Be underpinned by the principle of equity and common but differentiated responsibilities
- Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Article 11.2);

COP Authority

- Operate under the authority and guidance, and be fully accountable, to the COP;

Country Driven

- Enable direct access to funding by the recipients; and
- Ensure recipient country involvement during the stages of identification, definition and implementation, rendering it truly demand driven.

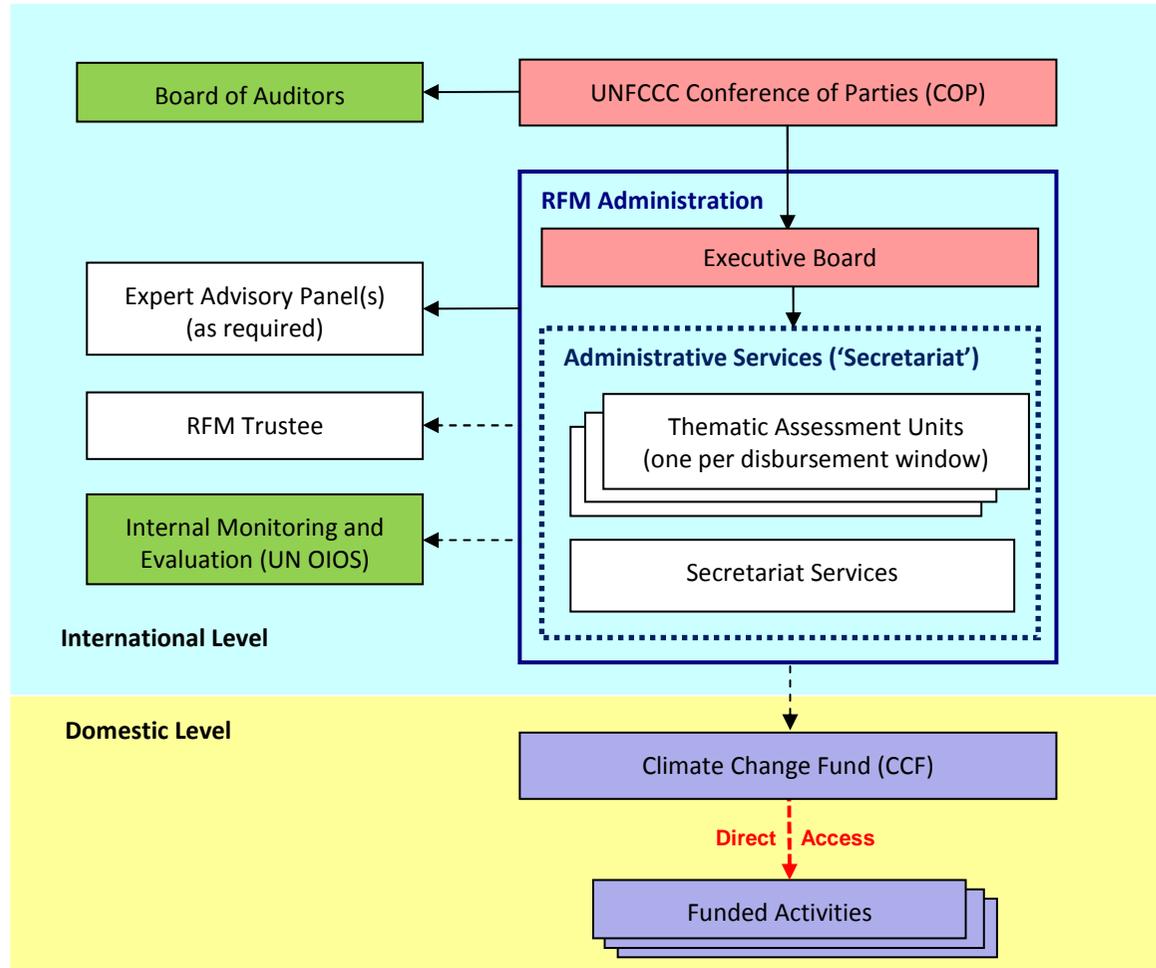
Over-all Design Principle for the Reformed Financial Mechanism (RFM):

General political acceptability

- (i) Those who (are obliged to) contribute *wish* to contribute to the RFM
- (ii) Those who (are entitled to) receive *wish* to receive from the RFM



The Reformed Financial Mechanism (RFM) Institutional Architecture



Key Design Principles

- COP Authority
- Subsidiarity
- Independent Oversight

Legend:

Governance Relation ('under the authority of')



Contractual Relation (MOU or contract)





The Executive Board: Remit and Responsibility

- The Board is collectively responsible to the COP.
- Operationalise the guidance and direction of the COP.
- Set the budget for the thematic funding windows (subject to COP approval)
- Internal monitoring
- Outreach consultation with stakeholders (Consultative Forum)



The Executive Board: Composition

FULL MEMBERS

26 (Maximum 1 per country – Annex I: 11 to 15, non Annex I: 11 to 15)

A. Country Constituencies (Major Economies)

G5: China, India, Brazil, Mexico, and South Africa

G8: Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States;

B. Group and Regional Constituencies

Most Vulnerable Countries 6: 2 LDC, 2 SIDS, 2 Africa

Economies in Transition: 2

UN Regions 5: 1 representative each



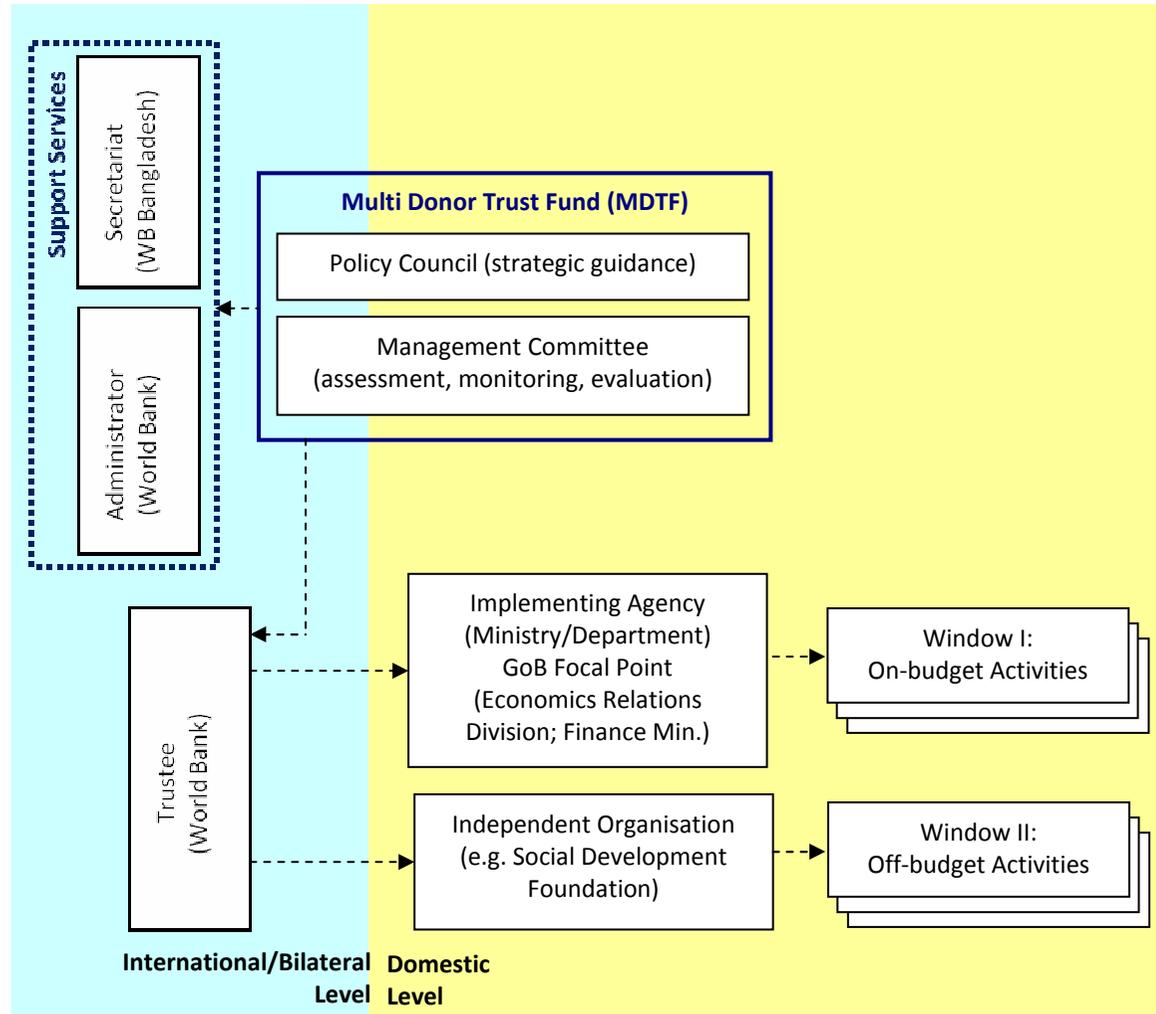
Climate Change Funds: The Funding Hubs

DESIGN REQUIREMENTS

- ***Governance.*** The governance of CCFs must be transparent and inclusive, with representation of all the relevant stakeholder interests, with decision-making based on the principle of subsidiarity.
- ***Functions.*** Apart from assessing, monitoring, and evaluating in-country funding activities, the CCFs are to be in charge of the relevant national MRV Registries.
- ***Oversight.*** The external oversight is principally to be carried out by the relevant national Supreme Audit Institutions (‘National Audit Offices’), following guidance by the Board of Auditors (approved by the COP).
- ***Outreach:*** CCFs are to have regular opportunity to exchange experiences at least at the regional level. This is to be facilitated through the RFM Consultative Forum



Climate Trust Funds: The Bangladeshi Multi Donor Trust Fund (MDTF) Model



Legend:

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Contractual Relation (MOU or contract)





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To Earmark or Not to Earmark?

The debate on the use of auction revenue from the EU ETS

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- For there to be a deal at Copenhagen, there will have to be significant financial flows from developed to developing countries. These flows will have to be new and additional to ODA, timely and predictable, equitable and appropriate.
- Taking into account the minimum expectation of developing countries, the level of EU Annex II Parties (= EU15) assessed annual contribution would have to be between €42 and €51 billion, depending on the complementary amount of ‘international finance’ (Norwegian Proposal, IATAL etc.).
- This would be tantamount to between 57% and 68% of the expected total revenue from EU ETS auctioning (in 2020), or between 69% and 83% of current EU ODA. It thus seems unlikely that the required finance could be raised from either source alone.



- There is currently considerable resistance among EU Member States (Treasuries) to the proposals by the EU Commission and Parliament for earmarking revenue of ETS auctioning.
- The Member States objection can all be addressed by taking the EU ETS auctioning “off-budget,” following numerous precedents, such as *National Lotteries* and the *UK Renewables Obligation*. Institutionally, this could be achieved by introducing domestic/EU-wide ETS-regulators who will be charged with carrying out the auctioning on behalf of the Member States, with revenue flowing into ETS Trust Fund(s) outside the national budgets.
- For anyone genuinely interested in a Copenhagen deal, the real question therefore is not: *To Earmark or Not to Earmark?*
 - it is *Deal or No Deal?*