The Climate Registry: Taking the Initial Steps

Technical Working Group
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www.climateregistryoption.org
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I. The Creation of the Climate Registry

Article 53 of the Cancun Agreements, COP16, endorsed the creation of a Climate Registry stating that the COP:

> "*Also decides* to set up a registry to record national appropriate mitigation actions seeking international support and to facilitate matching of finance, technology and capacity building to these actions"

Articles 54 to 67 further elaborate the purposes of the Registry and obligations of Parties to support its operationalization with particular emphasis on the information requested of developing and developed countries to support the information management and matching functions of the Registry.

The Climate Registry is designed to expedite and expand financial resources available to address the rapidly changing imperatives of responding to the causes and impacts of climate change.

In the months leading up to COP17 in Durban, South Africa, many key questions must be answered about how to put in place the Climate Registry. What will be its main functions? How should it operate and how will it interact with the recently created Green Climate Fund and other operating entities of the UNFCCC's financial mechanism such as the Global Environment Facility? What criteria and standards will be applied to qualify projects and programs for posting on the Registry? How will funding sources qualify for posting on the Registry? Could sector or national registries be set up?

For over two years, the Technical Working Group on the International Architecture for Climate Finance (TWG) has discussed theses issues in a series of publications that explore the Climate Registry's functions, operations and relations to other parts of the UNFCCC. TWG publications can be accessed at www.climateregistryoption.org. This report, in continuing that publication series, focuses on the links of the Registry to the UNFCCC financial mechanism and related decisions and explores the importance of monitoring, reporting and verification (MRV) systems in operationalizing the Registry. It closes by proposing modest but fundamental steps that can be taken to launch the Registry in the near future.

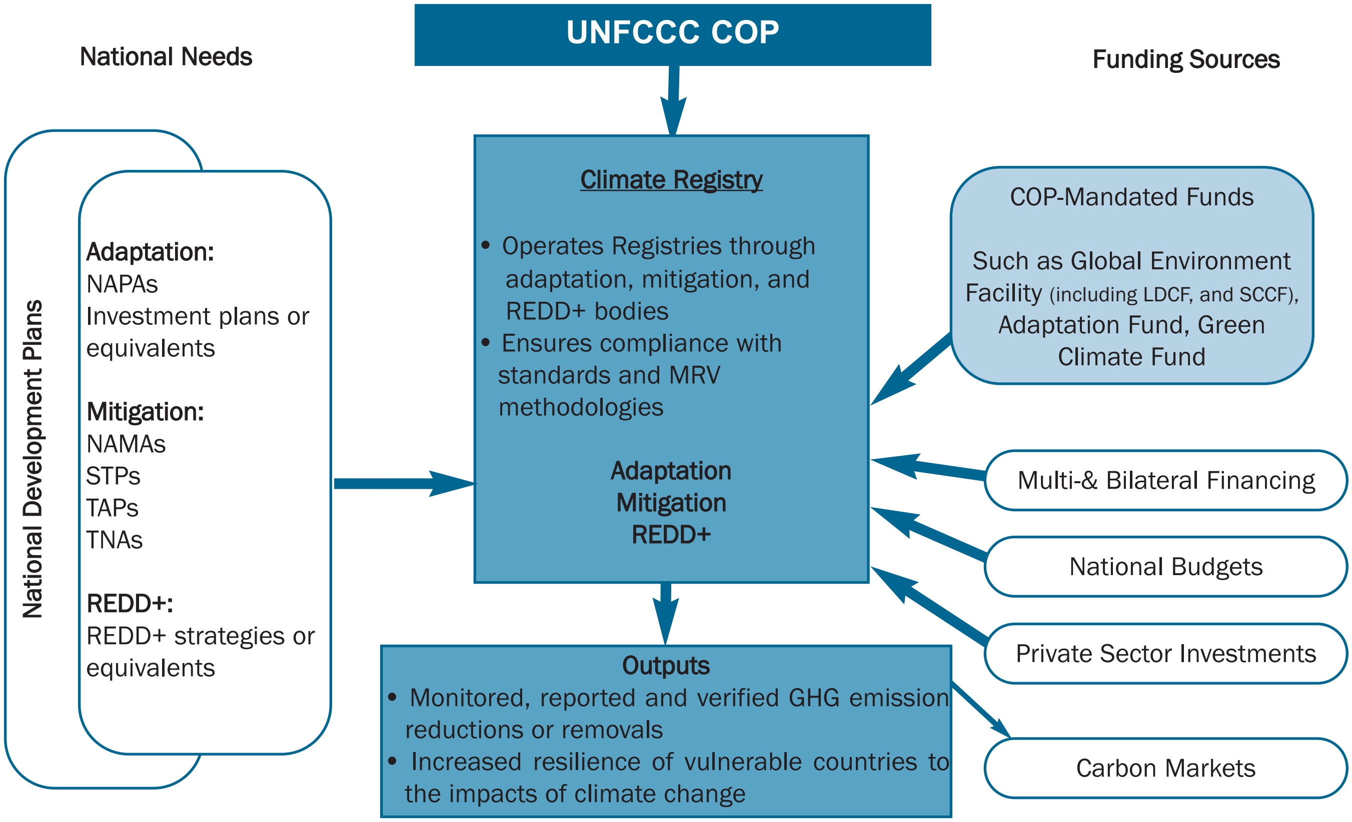
II. What the Climate Registry Does

The Climate Registry can align the strategic plans and needs of developing countries with financing sources operating both under and outside the purview of the COP.

The Climate Registry is designed to expedite and expand financial resources available to address the rapidly changing imperatives of responding to the causes and impacts of climate change. It places the adaptation and mitigation needs of developing countries as the central reference point of international finance and aligns public and private finance to support those needs. It provides assurances that developing countries can lead and coordinate investment and financing flows at the national level while providing guarantees to international investors and public agencies that agreed fiduciary, operational and emission reduction and resiliency targets will be met. Moreover, the Registry can improve the transparency of resource allocation by parties and facilitate coordination among different sources of financing including the private sector.

Figure 1 highlights graphically how the Climate Registry can align the strategic plans and needs of developing countries with financing sources operating both under and outside the purview of the COP. Through this alignment, the Registry can use public resources to leverage ever greater volumes of private investment that represent the largest source of climate finance.

Figure 1: The Climate Registry Option



The Registry's process of aligning national needs with financial sources is accomplished by exercising the four functions summarized below:

- The **information management function** provides a central posting medium through which statements of national needs and financing opportunities are rendered public. As projects and programs move through implementation, independently verified results, lessons learned and formal reports are posted to inform all participants of progress, best practices and encountered challenges;

- The **matching function** reflects the proactive character of the Registry as it seeks to match developing country needs with financial opportunities. When investment barriers or problems in meeting established standards and targets arise, the Registry facilities the acquisition of technical and financial support to move beyond those identified constraints. Once the Registry identifies these needs, it can recommend that an appropriate COP-mandated fund, i.e., the GEF, AF or GCF, employ its resources to overcome the problems. The Registry has no formal authority that will oblige financing partners, public or private, to match national needs with international financial sources. Only the COP can authorize and guide the use of COP-mandated funds to meet certain identified needs by the Registry. By the same token, the COP has no authority over private resources or other sources of public finance.

- The **regulatory function** allows all participants, whether recipient or contributing, to have confidence in the transparency, predictability and fairness of the Climate Registry. The regulatory function requires that standards, including measurable results, are established for the quality of national plans to be registered. Those standards, as well as methodologies to measure results, provide the operational predictability and confidence on which contributors and recipients can engage in mutually supportive transactions. While the standards and methodologies are developed by technical bodies of the UNFCCC and approved by the COP, the Climate Registry can ensure compliance by recipient and contributing countries.

> **Through alignment, the Registry can use public resources to leverage ever greater volumes of private investment that represents the largest source of climate finance.**

- The **verification function** establishes the processes by which recipient countries, donors and external technical agents verify compliance and delivery of agreed outputs and contributions. Both standards and methodologies are developed by UNFCCC technical bodies and approved by the COP but it is the Registry that can ensure adherence through the independent verification process and the posting of results. The verification function can also provide a transparent accounting for new and additional financing from contributor countries.

The development of the Registry's functions will unfold over time and in an incremental manner. Initial experiences with sector-wide and national registries may prove to be particularly beneficial in early years.

III. Governance Principles

There is a set of governance principles that are embedded in the 1992 UN Framework Convention on Climate Change (UNFCCC), in decisions of its Conference of the Parties (COP), as well as in the operations of the Convention's Financial Mechanism. Those principles, enumerated below, are likewise embedded in the overall architectural design of the Climate Registry:

- Institutional economy, that avoids the creation of new institutions while tapping into and coordinating the comparative advantages of existing institutions;
- A non-exclusive, but coordinated approach to finance that encourages use of financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels as well as market-based sources;
- Accountability of the financial mechanism to the Parties through the COP to ensure conformity with the policies, program priorities and eligibility criteria established by the Parties; and
- Equitable, balanced representation of all Parties through universal membership within a transparent system of governance.

The Climate Registry is also consistent with the 2005 Paris Declaration and Accra Agenda for Aid Effectiveness as it promotes harmonizing, aligning and managing aid for results with a set of monitorable actions and indicators. The use of comparative advantage of funding sources and their expertise is a core element of the Registry. It is also fully in line with the commitment to help developing country governments formulate and implement their own national development plans, according to their own national priorities, using, wherever possible, their own planning and implementation systems.

IV. The Relation between the Climate Registry and the Green Climate Fund (GCF)

As the operational modalities of neither the Registry nor the Green Climate Fund have been defined, we must return to Article 11, Financial Mechanism, of the Convention to clarify the basic relation of the two to each other and to the UNFCCC's financial mechanism. Paragraph 1 states:

> "A mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology, is hereby defined. It shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to this Convention. Its operation shall be entrusted to one or more existing international entities."

Paragraph 3 then articulates the arrangements to be respected in putting the financial mechanism into effect:

> "The Conference of the Parties and the entity or entities entrusted with the operation of the financial mechanism shall agree upon arrangements to give effect to the above paragraphs, which shall include the following:
>
> (a) Modalities to ensure that the funded projects to address climate change are in conformity with the policies, programme priorities and eligibility criteria established by the Conference of the Parties;
>
> (b) Modalities by which a particular funding decision may be reconsidered in light of these policies, programme priorities and eligibility criteria;
>
> (c) Provision by the entity or entities of regular reports to the Conference of the Parties on its funding operations, which is consistent with the requirement for accountability set out in paragraph 1 above; and
>
> (d) Determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of this Convention and the conditions under which that amount shall be periodically reviewed."

We underscore the highly complementary, if not irreplaceable, relationship that can be forged between the Climate Registry and the Green Climate Fund.

It is clear that both the Climate Registry and the Green Climate Fund are consistent with the stipulations of Paragraph 3.

These two entities are highly compatible and complementary. Nonetheless, there are differences between these two parts of the financial mechanism that warrant clarification. The first difference is that the Climate Registry is a **facilitating entity** while the Green Climate Fund is a **disbursing entity**. The Climate Registry manages no funds of its own: it supports the alignment of national needs with the provision of international climate finance. The Green Climate Fund is designed explicitly to disburse public financial resources for agreed climate-related purposes, "through a variety of financial instruments, funding windows and access modalities (Article 1(c) of Annex III of the Cancun Agreements, COP16), whose alignment could be facilitated by the Registry.

The second differentiation regards the operational scope of these two components of the financial mechanism. The Climate Registry, while operating under the guidance of and being accountable to the COP, has a scope of action that includes finance provided under the UNFCCC but also engages financing provided from private investors, bilateral agencies, multilateral financial institutions and other partners acting outside, albeit in harmony with, the Convention. In contrast, the Green Climate Fund, managed under the auspices of a UN convention, would seem to have the authority to manage and disburse only public financial resources provided by donor countries and consistent with the guidance provided by the COP. The Climate Registry, by working with financing sources outside the aegis of the COP, provides the mechanism for using modest public resources to leverage a much higher volume of private investment needed to achieve internationally agreed climate goals.

A third differentiation is that the COP can mandate that the financial resources managed by the Green Climate Fund be disbursed for specific purposes, for specific groups of countries and under specific terms. Indeed, the GCF will be designed to fill financing gaps across developing countries, particularly for low-capacity or highly vulnerable countries. In contrast, the COP cannot oblige other financing sources working with the Climate Registry, such as the private sector or bi- and multilateral agencies, to finance specific activities. In the same measure, the COP cannot dictate the terms on which those external financial sources should engage developing country partners: the terms of those financial operations are the exclusive domain of the recipient country and investing partner.

While the preceding points differentiate the Registry from the newly created Green Climate Fund, the message that needs to be underscored is the highly complementary, if not irreplaceable, relationship that can be forged between these operating entities of the UNFCCC's financial mechanism. The Climate Registry can identify gaps and opportunities, including for countries in greatest need, while the GCF can move swiftly to fill those gaps through a wide range of grant and, potentially, concessional lending operations. That complementarity seems to be anticipated in the Terms of Reference for the Design of the Green Climate Fund (Appendix III, FCCC/CP/2010/7/Add.1) when it states the GCF's Transitional Committee shall develop and recommend operational document that address:

> "Methods to enhance complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions;"

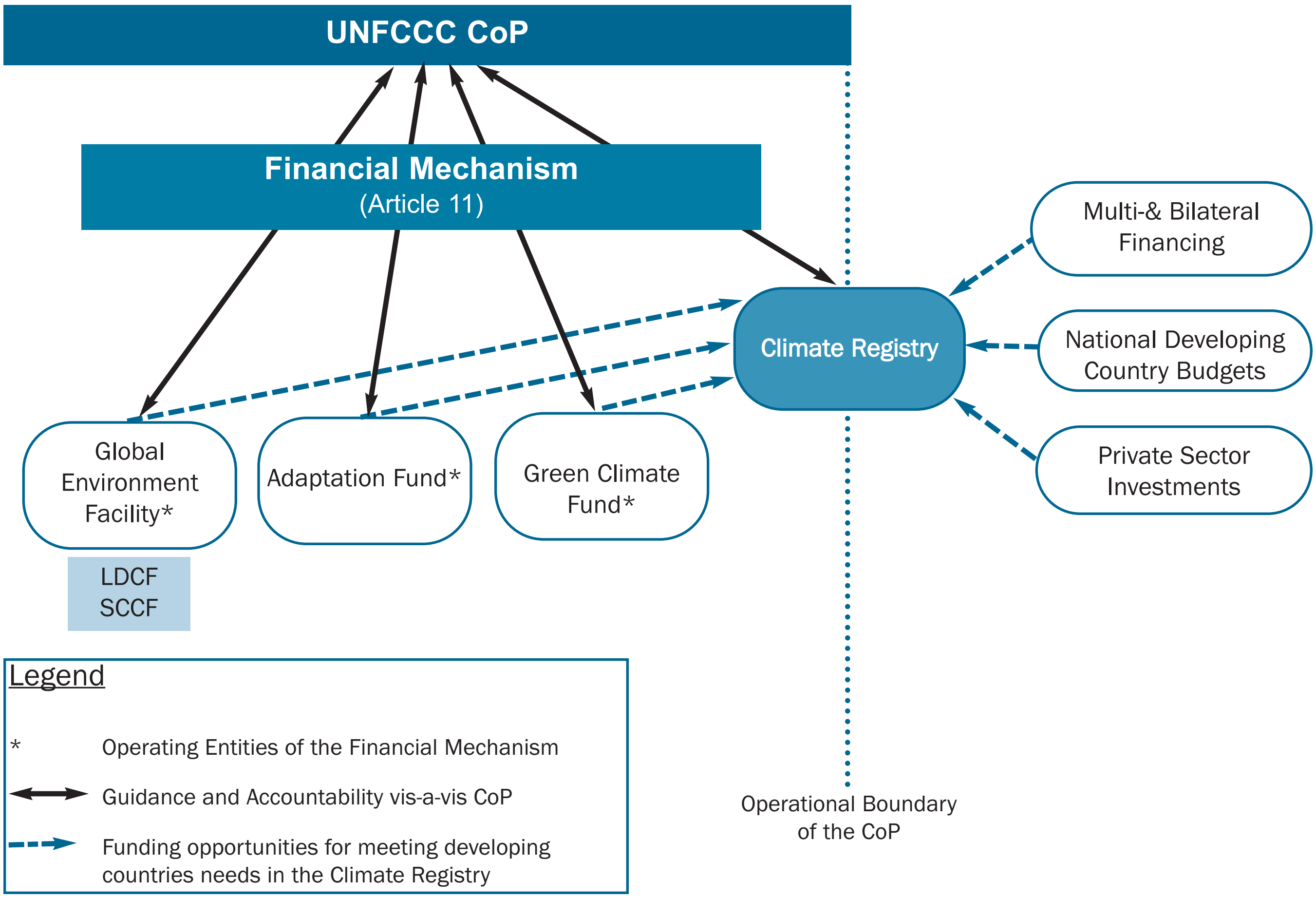
The Climate Registry can identify gaps and opportunities, including for countries in greatest need, while the Green Climate Fund can move swiftly to fill those gaps through a wide range of grant and, potentially, concessional lending operations.

We cannot close this section without clarifying the relationship of the Climate Registry with other COP-mandated funds, notably the Global Environmental Facility (GEF) and the Adaptation Fund (AF). The GEF and the AF occupy the same operational space as the Green Climate Fund. Both the GEF and AF are designed to disburse public resources to fill climate-related financing gaps and needs in developing countries. Those two funds can establish the same complementary relationship with the Climate Registry as that indicated for the Green Climate Fund, that is, providing resources for the gaps and opportunities identified by the Registry.

What is not clear is how the GCF will relate to the GEF and AF once the operational modalities of the newest COP-mandated fund are defined. Will the GCF integrate the GEF and AF? Will a division of responsibilities be established among the three building on their respective comparative advantage? A Standing Committee has been established by the COP to assist in improving coherence and coordination in the delivery of climate finance (FCCC/CP/2010/7/Add.1, para. 112). Whatever arrangement is agreed upon for those three disbursing mechanisms, it is our view that the Climate Registry can provide an essential facilitating function to increase the effectiveness of international climate finance.

Figure 2 is intended to clarify the relationship between the Climate Registry and the other operating entities of the financial mechanism as defined by the Convention. The Registry, as an operating entity of the Financial Mechanism, has the capacity to connect COP-mandated funds with other public and private financial sources in a transparent and effective manner to meet developing country needs. Given that the majority of climate finance currently directed to developing countries originates in sources outside the purview of the COP, including the private sector, national budgets and bi-and multilateral institutions, the Registry's unique position in working across these diverse funding sources may prove critical in getting climate finance to scale as quickly as possible.

Figure 2: Relations linking Climate Registry and other operating entities of the CoP



V. MRV and the Climate Registry

In addition to the four functions of the Climate Registry enumerated in Section II, there are other factors that will either impede or strengthen the national and international contributions of the Registry. For example, an equitable governance system ensuring balanced representation of Parties is essential to garnering support among developed and developing countries alike. Public transparency and accountability are equally important in guaranteeing buy-in and support from the private sector, civil society organizations and governments. Fortunately, there is a robust public dialogue and growing number of proposals on those issues that we believe will ensure adequate attention and broadly acceptable outcomes in support of a strong Climate Registry.

An issue that has not received adequate attention in our view is the establishment of standards and methodologies that will ensure the quality of financial transactions facilitated by the Registry and the results those investments generate. From our perspective, the essential factor that allows the diverse players in the international climate finance to work together is having the confidence that the financial resources provided by

A key element of the Climate Registry's success will be utilizing COP-approved MRV systems.

contributing countries and other developing partners will be used effectively and efficiently to deliver results related to reducing GHG emissions or increasing resilience in responding to the impacts of climate change. As discussed below, we believe that a system for measuring, reporting and verifying (MRV) the results from national and international climate finance is the foundation on which that confidence is built and sustained.

From our point of view, a key element of success of the Climate Registry will be establishing COP-approved MRV systems. All MRV systems are actually a composite of three different processes which, when combined, ensure delivery of agreed climate-related outputs:

- **Measurement:** The requisite for measuring the impact of climate investments is agreeing on the indicators to be used. Those indicators must be quantifiable and measureable by a third party. There is no universal set of climate-related indicators that can be applied automatically and uniformly in all places. Indicators must be tailored to the objectives of an investment and often to a given country or locale. For example, indicators used to measure improved climate resilience in mountainous areas will different significantly from indicators for coastal zones in small island states. Indicators for measuring reduction of emissions from deforestation and forest degradation may differ from emission indicators for urban areas hosting fossil-fuel dependant industries.
- **Reporting:** Every climate-related investment should have a reporting protocol by which the measurements associated with the investment can be presented to the public. Those reporting requirements must be consistent with the decisions by the COP. Whether in reference to a comprehensive results framework or a single indicator, reports must meet agreed standards and formats;
- **Verification:** Verification of reported adaptation and mitigation results must be conducted by an independent third party. In order to ensure impartiality of the verification process, the methodology employed to verify outcomes must be approved a priori by an established international body, usually a subsidiary body of the COP.

Understanding and adequately addressing these three distinct yet complementary elements of an MRV system is critical to identifying the next steps in developing the Climate Registry. In fact, we will go so far as to say that without an agreed MRV system, it will be difficult for the Registry to match national needs with potential sources of international finance. Without a results framework, without specific indicators tied to that framework and without an agreed independent system to verify delivery of results, international finance will not be provided on a sustained basis.

Establishment of an MRV system can actually provide the standards and indicators that will ensure alignment of country needs with international financing and thereby generate confidence that investments are producing the desired results.

In the same measure, establishment of an MRV system can actually provide the standards and indicators that will ensure alignment of country needs with international financing and thereby generate confidence that investments are producing the agreed results. Take, for example, the indicators established for a REDD+ MRV system. Those indicators provide a results chain and metrics that the COP or its subsidiary body can apply in endorsing national REDD+ strategies before they are posted on the Climate Registry. Those indicators also provide the metrics that an independent, third party will measure to verify that the financial contribution or investment is delivering against the agreed upon results framework. In equal measure, agreeing on results frameworks for mitigation or adaptation programs establishes indicators and standards that the country must include and meet in its national low-carbon development strategies, national adaptation plans or their equivalents.

In addition to sharing information and results with the concerned public, indicators and the accompanying MRV systems have several target audiences: contributor countries, development partners and private sector investors. Contributor countries must have confidence that continued financial support for a given country will generate additional reductions in GHG emissions or increased resilience to climate impacts. An MRV system allows contributor countries and other development partners to complement the front-loaded official development assistance (ODA) financing process with a performance based payment system wherein initial payments will lead to additional financial transfers only if results are supported by agreed measurement, reporting and verification processes. Private investors need to have certainty that initial and subsequent investments will generate emission reductions that can be traded on voluntary carbon markets. An agreed MRV system provides the certainty to the contributor/investor that its investment will continue to generate carbon or other agreed benefits that can be exchanged on carbon or other markets.

In summary, MRV systems are a necessary part of a Climate Registry that provide the foundation for developing the regulatory function and reporting activities of the Registry. The indicators supporting the MRV system can become the standards to be met in submitting plans and strategies for which financing is solicited from the international financial community. Setting indicators through a MRV system allows public and private investors to support payment arrangements built on compliance with agreed standards and benchmarks.

VI. Initial Steps in Building a Climate Registry

From the outset, we underscore the notion that the Climate Registry should be constructed in an incremental manner. It should be initiated by developing the information management function and, as needs, opportunities and institutional capacities increase, progress to taking on the regulatory and matching functions, and ultimately assume responsibility for the verification function. The Registry may encompass the regulatory and verification functions to the degree that international standards and MRV methodologies have been agreed to for adaptation, mitigation and REDD+ programs. Moreover, we believe that organizing national-level and sector-wide registries may provide the testing grounds on which a more-inclusive, international registry can be constructed.

We underscore the notion that the Climate Registry should be constructed in an incremental manner.

Some parts of the Registry can be created and assembled relatively quickly; other parts will require time and experimentation before the Registry acquires operational capacity. While leaving aside a number of issues such as an institutional home or the administration of the Registry, we suggest below three operational steps that can be taken to initiate the development of a dynamic Climate Registry.

> **Step one:** The first operational step that the COP should take is to initiate the information management function. Separate data platforms should be established for each of the adaptation and mitigation registries that will be created in keeping with provisions outlined in the Cancun Agreements. For example, separate data platforms should be created for REDD+ activities (already started through the REDD+ Partnership), and other mitigation strategies, perhaps sub-divided by economic sector. The information management systems can be initiated and developed in a comparatively short period of time.
>
> **Step two:** The second recommended step is to prioritize specific economic sectors or issues where the COP would like to support initial testing and development of the Registry. The purpose of identifying these sectors is to "charter" development of sector-specific registries so that necessary experience can be acquired at the sector level prior to attempting to create an all-inclusive registry at the global level. REDD+ and renewable energy are areas that could be given priority attention.

Sector-specific registries will allow engaged partners to develop, test and agree on MRV standards for the sector, an activity that will require considerable time and a broad range of technical expertise. We underscore our view that establishing the MRV standards and methodologies is the central requisite for building confidence between recipient countries and donors and ensuring sustained financing. Proper attention to setting MRV standards and methodologies also establishes the foundation of the Registry's regulatory function on which both matching and verification functions can be subsequently strengthened.

Organizing national-level and sector-wide registries may provide the testing grounds on which a more-inclusive, international Registry can be constructed.

Step three: Third, we recommend that the initial work of those chartered sector-specific registries sectors be applied in initial pilot countries. We believe that promoting development of the needed MRV standards and methodologies can best be accomplished in developing countries with considerable growth potential and a strong technological foundation in the chosen economic sector.

To support these national efforts, we recommend that partnerships be established between recipient countries, contributor countries and international financial institutions to ensure a steady and ample flow of resources to develop the appropriate MRV standards and methodologies and to support development of the prototype registries. Those partnerships could take several forms including the two suggested below:

Existing multilateral institutions dedicated to climate finance, such as the Scaling-up Renewable Energy Programs (SREP) of the Climate Investment Funds (CIF), could identify specific pilot countries where testing the development of a national or regional renewable energy registry could be carried out. This financing partnership could be built on funds from SREP coupled with contributions from other donors;

The demonstrated success of the European Commission and several European development banks in blending a wide range of financial tools (grants, concessional loans, , guarantees, equity and risk-sharing instruments) and actors (national, bi- and multilateral agencies and private investors) could be brought to bear to provide dedicated resources for sector-wide registries in selected countries.

These three steps, while apparently modest, will require considerable technical innovation, institutional development and direct application and testing in pilot countries over several years. We strongly recommend that pilot 'chartered' registries be developed for specific sectors and applied in promising countries before moving to a regional or global scale. The experience and lessons derived from those pioneering applications will enhance the effectiveness and efficiency of a global Climate Registry and actually accelerate its implementation in the long run.

From the Cancun Agreements:

53. Also decides to set up a registry to record nationally appropriate mitigation actions seeking international support and to facilitate matching of finance, technology and capacity-building support for these actions;
54. Invites developing country Parties to submit to the secretariat information on nationally appropriate mitigation actions for which they are seeking support, along with estimated costs and emission reductions, and the anticipated time frame for implementation;
55. Also invites developed country Parties to submit to the secretariat information on support available and provided for nationally appropriate mitigation actions;
56. Requests the secretariat to record and regularly update in the registry the information provided by Parties on:
(a) Nationally appropriate mitigation actions seeking international support;
(b) Support available from developed country Parties for these actions;
(c) Support provided for nationally appropriate mitigation actions;
57. Agrees to develop modalities for the facilitation of support through the registry referred to in paragraph 53 above, including any functional relationship with the financial mechanism;
58. Decides to recognize nationally appropriate mitigation actions of developing countries in a separate section of the registry;
59. Requests the secretariat to record, and regularly update, in a separate section of the registry, information submitted by Parties on the following:
(a) Mitigation actions contained in document FCCC/AWGLCA/2011/INF.1;
(b) Additional mitigation actions submitted in association with paragraph 50 above;
(c) Once support has been provided, internationally supported mitigation actionsand associated support;
60. Decides to enhance reporting in national communications, including inventories, from Parties not included in Annex I to the Convention on mitigation actions and their effects, and support received, with additional flexibility to be given to the least developed country Parties and small island developing States:
(a) The content and frequency of national communications from Parties not included in Annex I to the Convention will not be more onerous than that for Partiesincluded in Annex I to the Convention;
(b) Parties not included in Annex I to the Convention should submit their national communications to the Conference of the Parties, in accordance with Article 12,paragraph 1, of the Convention, every four years or in accordance with any further decisions on frequency by the Conference of the Parties, taking into account a differentiated timetable and the prompt provision of financial resources to cover the agreed full costs incurred by Parties not included in Annex I to the Convention in preparing their national communications;
(c) Developing countries, consistent with their capabilities and the level of support provided for reporting, should also submit biennial update reports containing updates of national greenhouse gas inventories, including a national inventory report and information on mitigation actions, needs and support received; 61. Also decides that internationally supported mitigation actions will be measured, reported and verified domestically and will be subject to international measurement, reporting and verification in accordance with guidelines to be developed under the Convention;
62. Further decides that domestically supported mitigation actions will be measured, reported and verified domestically in accordance with general guidelines to be developed under the Convention;
63. Decides to conduct international consultations and analysis of biennial reports under the Subsidiary Body for Implementation, in a manner that is non-intrusive, non-punitive and respectful of national sovereignty; the international consultations and analysis will aim to increase transparency of mitigation actions and their effects, through analysis by technical experts in consultation with the Party concerned and through a facilitative sharing of views, and will result in a summary report;
64. Also decides that information considered should include the national greenhouse gas inventory report, information on mitigation actions, including a description, analysis of the impacts and associated methodologies and assumptions, progress in implementation and
information on domestic measurement, reporting and verification, and support received; discussion about the appropriateness of such domestic policies and measures is not part of the process; discussions should be intended to provide transparency of information related
to unsupported actions;
65. Encourages developing countries to develop low-carbon development strategies or plans in the context of sustainable development;
66. Agrees on a work programme for the development of modalities and guidelines for: facilitation of support to nationally appropriate mitigation actions through a registry; measurement, reporting and verification of supported actions and corresponding support;
biennial reports as part of national communications from Parties not included in Annex I to the Convention; domestic verification of mitigation actions undertaken with domestic resources; and international consultations and analysis;
67. Invites Parties to submit views on the items mentioned in paragraph 66 above, including with respect to the initial scheduling of the processes described in this section, by 28 March 2011;

Technical Working Group

The "Technical Working Group on the International Architecture for Climate Finance" (TWG) was founded in early 2009 to develop practical architectural arrangements to support a post-2012 climate agreement. The TWG is composed of experts from developing and developed countries and operates through face-to-face meetings, electronic and phone consultations, the production of documents, and the commissioning of studies.

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