

**TABLE 9: HOW COULD THE CDM PROVIDE INCENTIVES FOR DEVELOPING COUNTRIES PARTICIPATION**

Description	Pros & Cons
<p><b>Option 1: Use the Share of Proceeds for Administrative Expenses and Assistance with Adverse Impacts as an Incentive Mechanism for Climate Change Mitigation.</b>  <i>(LDCs that need adaptation are not necessary those that need mitigation)</i></p>	
<ul style="list-style-type: none"> <li>✦ the share of proceeds would be allocate to developing countries based on their willingness to participate in climate change mitigation activities.</li> <li>✦ For example, the CDM could offer such funds under the agreement that recipients host CDM projects or undertake other measures to reduce GHG emissions, or it could offer funds to developing country governments in exchange for agreements that they undertake energy efficiency upgrades at their facilities, or implement polices to reduce emissions in the transportation sector.</li> <li>✦ Since estimating the amount of emission reductions associated with these measures is highly uncertain, the amount of CDM credits generated by these actions would not be subject to the same rigorous quantification and verification criteria required of CDM projects.</li> </ul>	<ul style="list-style-type: none"> <li>✦ would allow the CDM to encourage P&amp;M that generate substantial reductions, but are not easily measured or verified and, thus, may not be captured through standard CDM projects or other cooperative mechanisms.</li> <li>✦ would be difficult to ensure that government activities are in addition to actions that would have been undertaken in the absence of the distribution of the funds.</li> <li>✦ does not ensure that the countries most vulnerable to the adverse effects of climate change would be the recipients of these funds.</li> <li>✦ placing such conditions on the allocation of funds may be highly contentious, particularly from the perspective of developing countries vulnerable to the impacts of climate change</li> </ul>
<p><b>Option 2: Establish a Fund to Help Developing Countries Defray Increases in the Marginal Cost of Mitigating GHGs that Could Occur through Hosting CDM Project.</b>  <i>(Canada does not support it)</i></p>	
<p>Many developing countries have expressed concern that project-based flexibility measures will lower their national GHG emissions and thus lower their national baselines. Increasing marginal costs of emission control associated with these lower baselines, may raise the cost of control if and when developing nations commit to future emission reduction targets.</p> <p>To address this concern, the COP/MOP could establish a fund to help developing countries defray any increase in the marginal cost of mitigating GHGs that may have occurred with the implementation of CDM projects.</p>	<ul style="list-style-type: none"> <li>✦ would require Annex I countries to commit additional resources to support this fund.</li> <li>✦ If Annex I investors in CDM projects are required to contribute to this fund, it will decrease the cost-effectiveness of purchasing CERs and may reduce private sector participation in the CDM.</li> <li>✦ calculating the increase in the marginal cost of GHG mitigation in developing countries that could result from CDM project implementation would be analytically difficult.</li> <li>✦ would involve creating a separate fund</li> </ul>
<p><b>Option 3: Establish a Capacity Enhancing Fund</b> <i>(Canada does not support it)</i></p>	
<p>Developing country concerns regarding project-based flexibility mechanisms often are tied to the notion that monitoring, verifying, and enforcing emission reduction activities can be extremely difficult and costly. Developing nations may lack adequate institutional capacity needed to negotiate the terms of CDM projects and to ensure national renewable and non-renewable resources are used in a manner consistent with their development objectives.</p> <p>To address these concerns, the COP/MOP could establish a fund for training and capacity building in developing countries. This fund could provide methodologies, workshops, and training in monitoring and verification activities. This fund could also provide resources to clearly define developing country national goals and priorities, build up research and management capacity, and identify technological and financing needs.</p>	<ul style="list-style-type: none"> <li>✦ would enable developing countries to direct CDM investments and technology transfer to areas generating developmental benefits.</li> <li>✦ would require additional contributions from Annex I countries.</li> <li>✦ If such a fund is supported by a share of CDM project revenues or fees collected from CDM participants, it will decrease the cost-effectiveness of CERs and may discourage private sector participation in the CDM.</li> </ul>