

**CREDITING-RELATED READINESS ACTIVITIES UNDER THE PMR:
UPDATE AND SUGGESTED NEXT STEPS**

PMR Note PA12 2015-1

May 15, 2015

I. INTRODUCTION

1. The Partnership for Market Readiness (PMR) was established in 2011 to support countries' readiness activities and piloting of innovative market-based instruments, including scaled-up crediting mechanisms. As such, the PMR's support to the development of crediting instruments is an important part of the work program. In view of uncertainty with regards to the international demand for carbon credits, it is critical to discuss the implications of such developments on the Implementing Countries' crediting-related readiness activities. Moreover, establishing a common understanding on the possible ways forward for the crediting programs supported by the PMR is important in order to ensure the effectiveness and relevance of PMR-supported readiness activities.

2. Against this backdrop, the PMR Secretariat commissioned a study "*Crediting-related activities under the PMR: Status and support for implementation*" ("Study") to review the status and scope of crediting-related readiness activities under the PMR. The objectives of this Study are threefold: a) to review and compare the PMR crediting-related activities presented in Implementing Countries' Market Readiness Proposals (MRPs); b) to assess whether and how these crediting-related readiness activities can stimulate scaled-up mitigation by creating an enabling environment (technical, regulatory and institutional) that can support a range of climate policies; and c) to identify opportunities for the PMR to consolidate and maximize its support to Implementing Countries. The final version of the Study, including the written feedback provided by the Participants, will be shared with the PA prior to PA12.

3. Based on the outcomes of the Study, the PMR Secretariat organized a session at PA11 in London under agenda item 5 ("the Session"). The session had two objectives: (1) to inform the future PMR support with regards to crediting-related activities; and (2) to help identify possible implications of these activities on other PMR work streams, such as the Technical Work Program.

4. During the Session, the PMR Secretariat [presented](#) key observations based on the above mentioned Study and suggested possible ways forward in terms of supporting a range of climate policies through crediting readiness and identifying opportunities for the PMR to consolidate its support to Implementing Countries¹. In particular, the PMR Secretariat suggested that it may be useful to continue and expand support to Implementing Countries that are pursuing specific crediting instruments through (i) building readiness for carbon pricing instruments (e.g., ETS or carbon tax), (ii) accessing results-based financing as a tool to channel international climate finance, and/or (iii) creating a boarder policy, legislative and institutional framework for low-carbon investment.

5. During the Session, the PMR Participants continued discussions on the same topics in the breakout group format. In particular, Participants provided feedback on the above mentioned Study, as well as exchanged views on how the PMR support to the crediting-related readiness activities could be strengthened in order to ensure that the PMR-supported readiness activities help stimulate and catalyze scaled-up mitigation action and low-carbon investment.

6. This note (PMR Note PA12 2015-1) builds on the insights from the above mentioned Session and provides the session summary. The Note also further elaborates on the areas for more focused discussions with Implementing Countries and outlines specific proposals on how to enhance support for crediting-related activities under the PMR. The PA is invited to provide feedback on this Note and proposed next steps at PA12 in Barcelona to inform the PMR work program on the subject matter.

¹ Please see the PMR Note PA11 2015-3, "*Crediting-related activities under the PMR: Current Status and Possible Ways Forward*" from March 2, 2015 (https://www.thepmr.org/system/files/documents/Note%20on%20Crediting-Related%20Activities%20under%20the%20PMR_March%202.pdf)

Following this feedback, the Secretariat will report back to the PA periodically on its support to the crediting-related readiness activities under the PMR and seek further guidance on its activities.

II. SUMMARY OF THE CREDITING SESSION BREAKOUT GROUP DISCUSSIONS AT PA 11

7. The breakout group discussions were structured around three main topics: (i) the status of crediting-related activities under the PMR and implications of the evolving context; (ii) the role of crediting-related activities in the future; and (iii) possible ways forward for the PMR's support to crediting-related activities. The main insights from these discussions are the following:

8. **The outcomes of the Paris COP are expected to have an impact on the planned crediting-related activities.** The Implementing Countries share the view that the Paris COP could provide general directions with regards to the main features of the new crediting instruments in the context of the UNFCCC multilateral regime. As such, the outcomes of the Paris COP could provide further "guidance" for design, fine-tuning, and implementation of crediting-related activities in Implementing Countries' MRPs. Given the absence of international guidance at the moment and in order to overcome the uncertainty, some Implementing Countries emphasized the importance of mid-term reviews of MRPs, and prioritized the creation of domestic demand for credits.

9. **Crediting-related readiness activities contribute to objectives and readiness efforts of other policies, instruments and measures considered by Implementing Countries** (e.g., results-based financing (RBF), international climate finance, broader low carbon investment frameworks). Crediting mechanisms are being designed and implemented with several objectives - from accelerating private sector participation and channeling of financial resources into the low carbon investments to generating (co-)benefits that are comparable and at times even greater than expected benefits stemming from crediting of GHG emission reductions. Moreover, some crediting-related readiness activities - such as mapping of mitigation potentials and policies, data collection and management, establishment of MRV systems and registries, and others - build necessary foundation for other domestic sectoral and climate policies. Finally, crediting-related readiness activities also generate important "learning-by-doing" experience and, therefore, provides important lessons for designing and implementing a range of climate policies, and for stimulating broader policy development and integration.

10. **Recognizing potential multiple benefits of crediting-related readiness activities, the PMR support could be further enhanced by exploring synergies and differences with international result-based climate finance.** Some Participants indicated their interest in exploring synergies and differences between crediting approaches and result-based finance (RbF) so that ways of (effective) deployment of climate finance and leveraging of private capital could be informed. Furthermore, exploring the interactions and links between crediting-related approaches and results-based financing could also inform how to access other types of climate finance, building on the existing crediting approaches.

11. **There is a need for better understanding of how crediting-related readiness activities can be used to support other climate policy instruments.** Some participants recognized that specific readiness for crediting is necessary. Some, on the other hand, emphasized that crediting-related activities generally contribute to readiness for a broader set of Market-Based Instruments (MBIs). As such, they also emphasized that this broader objectives and flexibility of readiness objectives (i.e., pursuing multiple scenarios and priority for non-regrets activities) should be considered in

Implementing Countries because these considerations could, in some cases, strengthen the ambition of the MRPs. Finally, Participants also stressed the importance of the circumstances in each Implementing Country for assessing the links between crediting-related activities and other climate policy instruments and for defining any further targeted support in this regard.

12. **The PMR's policy and technical support to Implementing Countries should go beyond to the activities identified in the MRPs.** Several possible areas of support were highlighted by the Participants:

- Exploring the links and interactions of crediting instruments with broader climate policy goals and instruments, including the INDCs (e.g., avoidance of double counting). This area of support can help ensure better alignment of crediting with other national policies and assessment of its contribution to broader policy development and integration.
- Exploring and identifying minimum standards for the crediting programs (e.g., methodologies and procedures - including verification - and usefulness and limitations of the CDM).
- Understanding the ways countries may have to adjust their readiness paths for the targeted market-based instrument and ways of overcoming the related challenges.
- Providing additional technical support to Implementing Countries on cross-cutting building blocks of crediting instruments, such as data collection and management, MRV and registries, with focus on approaches that go beyond facility-level in sectors targeted by the crediting-related MRPs.
- Assessing sources of demand and better understanding of ways of accessing different sources of financing for the crediting programs. This can also help to close the gap between readiness and implementation of activities (e.g., understanding the expectations of the purchase-oriented facilities such as the potential Fund for Scaled-up Crediting).
- Exploring strategies for engagement of the private sector in the development and implementation of the crediting programs. The confidence of the investors and promoters need to be restored after the drastic reduction of the CDM-related incentives.

13. **In order to ensure effectiveness of the PMR's support to crediting-related activities, one of the areas of focus should be sharing of knowledge and emerging best practices between Implementing Countries.** The modalities of such support could include bilateral and regional workshops, more regular technical interactions and knowledge exchange events. In order to maximize synergies, it is important to promote effective sharing of learned experience and good practices, conduct stocktaking exercises and better use of synergies between crediting-related technical work and other pillars of the technical work program of the PMR (on MRV, offsetting, registries, stakeholder engagement).

III. SUGGESTED STEPS FORWARD

14. Amid the uncertainty in regard to the role of crediting instruments in future climate change regime, there are several ways in which the PMR support crediting-related readiness activities could be enhanced. They are grouped in three main action areas, as follows:

1. Follow-up on the recommendations of the Stocktaking Study

15. **Initiate bilateral discussions with Implementing Countries on the most effective ways of applying the recommendations provided by the Study.** These consultations would inform re-evaluation of the implementation approaches for the MRPs, as needed, taking into consideration the levels of flexibility that a country has in terms of adjusting its readiness path. The consultations can further help assess readiness activities in terms of their “non-regrets” potential, their ability to serve broader policy objectives, and their ability to facilitate access to other types of climate finance (such as RbF). Finally, the consultations will help define the need for expanding the PMR support to the areas of broader policy development and understanding ways of improving access to other types of international finance.

16. **Initiate “case study discussions” on ways that crediting-related readiness activities can help stimulate policy development.** For each Implementing Country, the case study discussions will explore and demonstrate the added value of crediting readiness to broader policy design, regulatory developments and implementation of low carbon investments. The outcomes of such discussions will be disseminated with the PMR Participants to ensure effective knowledge sharing and feedback.

17. **Use analytical framework created by the Study by Implementing Countries which are finalizing their MRPs.** There is an opportunity of more direct implementation of the recommendations of the report to direct the MRP activities in several Implementing Countries, including potentially Jordan, Peru and Tunisia.

2. Ensure sound coverage of crediting-related readiness under the Technical Work Program of the PMR

18. **Enhance the crediting-related activities of the Technical Work Program, including the activities needed to support broader policy objectives of crediting-related readiness.** The Technical Work Program is developed around the different carbon pricing instruments and key cross-cutting issues. As such, it can be usefully enhanced to support crediting-related readiness activities over the next two to three years by focusing on a series of knowledge products and analytical notes targeting crediting-related readiness activities and access to a broader set of climate finance options. As proposed by the participants at the roundtable discussions in London, this work stream could include the following knowledge products:

- MRV approaches beyond facility-level: stocktaking of the emerging practices in sectors targeted by the crediting-related MRPs (transport, sustainable communities, solid waste sector and others as relevant);
- Baselines setting at the sectoral level: country specific case studies (with reference to the PMR Technical Note #5 on baselines);
- Relationship between crediting instruments and INDCs: briefing note exploring ways to better align crediting with other national policies and evaluating its contribution to broader policy development and integration (with reference to the [Checklist on Establishing Post-2020 Emission Pathways that can help opportunities, impacts and financing](#));

- Creating readiness for crediting and other types of climate finance (including RbF): synergies and differences in implementation of investment with climate and other benefits;
- Financial mechanisms for crediting-related programs, including assessment of sources of demand, and incentive schemes for private sector participation;
- Priority to piloting: closing the gap between readiness and implementation;
- Jurisdictional approaches: ways to address vertical coordination and better policy integration.

19. **Initiate the preparation of a *guidance on emerging practices for crediting NAMAs: successes, challenges and ways forward*.** In response to the suggestions from several Implementing Counties, the PMR Secretariat can compile the outcomes of the analytical work and learned practical experience in a comprehensive “Guide on emerging practices for crediting instruments: successes, challenges and ways forward”. The guidebook should be viewed as a living document that can serve as a basis for exploring and identifying *minimum standards for the crediting programs* as mentioned above.

3. Use crediting-related readiness work as a platform to discuss and inform the design on the new international crediting mechanisms

20. Knowledge and experience generated by the PMR-supported country work on crediting-related readiness, as well as by the cross-cutting technical work on crediting instruments (as described above) can usefully inform the international discussions of the role and design of the new international crediting mechanisms. This work also can serve as a practical ground, in a longer term, for the collective thinking of the ways of linking domestic crediting systems and facilitating compatibility of domestic offsetting schemes with the future international mechanisms.

IV. ACTION BY PA

21. The PA is invited to provide feedback on this Note and proposed next steps at PA12 in Barcelona to inform the PMR work program on the subject matter.