Crediting-related activities under the PMR: status and support for implementation

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Outline

- Objectives
- Approach and Methodology
- Potential role of crediting instruments
- The eight crediting MRPs to date: Commonalities and divergence
- Assessing no-regrets:
  - Creating readiness
  - Maximizing benefits
- How can a PMR work programme for crediting-related activities support scaled-up mitigation?
Objectives of the study

1. Review and compare the 8 MRPs that focus on crediting-related activities

2. Assess whether and how these activities can stimulate scaled-up mitigation by creating a domestic environment that can support a range of climate policies

3. Identify additional opportunities for the PMR to support, through implementation of crediting-related MRPs
Approach and Methodology

- Establish theoretical basis
- Detailed assessment of eight MRPs (Colombia, Costa Rica, Mexico, Morocco, Peru, Thailand, Tunisia, Vietnam)
- Targeted interviews (e.g. GIZ, NAMA facility, FCPF, EBRD-PETER)
- Analysis and iteration
- Conclusions
Role of crediting instruments:
Support to the evolution of domestic climate policy

This possible pathway serves to illustrate how crediting-based activities might be considered by a country to build readiness for future policy instruments.

**NAMA**
- Emission reductions (ERs)
- Climate finance (RBF or other)

**Sectoral crediting**
- ERs as carbon credits for international (compliance) markets
- Purchase of credits

**Emissions trading**
- Emission reductions (from binding cap)
- Demand for allowances, credits, own reductions

Scaling up
**Colombia**
- **EoI**: Focus on transport sector; MBI options open
- **MRP**: NAMA with crediting component, domestic offset, permit scheme
- **2016-2020**: Launch of selected MBIs

**Costa Rica**
- **EoI**: Domestic carbon market
- **MRP**: Domestic carbon market (project-based)
- **2015-2017**: Implementation of selected MBI for all activities
- **Post-2017**: Full scale launch of NAMAs

**Mexico**
- **EoI**: No specific MBI mentioned
- **MRP**: NAMAs with crediting component
- **Post-2018**: Launch of sectoral crediting

**Morocco**
- **EoI**: New market instrument
- **MRP**: Sectoral crediting

**Peru**
- **EoI**: Assessment of ETS and scaled-up crediting
- **Draft MRP**: Expected implementation date

**Thailand**
- **EoI**: Mix of different MBIs
- **MRP**: Energy performance certificate (EPC) scheme, project-based crediting
- **2017-2019**: Launch of crediting scheme and pilot EPC

**Tunisia**
- **EoI**: Sectoral crediting
- **2018-2020**: NAMA implementation

**Vietnam**
- **EoI**: MBI options open
- **MRP**: NAMAs with crediting component

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**Key Dates**
- **2016-2020**: Launch of selected MBIs
- **2015-2017**: Implementation of selected MBI for all activities
- **Post-2017**: Full scale launch of NAMAs
- **Post-2018**: Launch of sectoral crediting
- **2017-2019**: Launch of crediting scheme and pilot EPC
- **2018-2020**: NAMA implementation

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**Note**
- **EoI submission**
- **Final MRP presentation**
- **Expected implementation date**
Summary of commonalities and divergences

◆ Choice of instrument:
  ▪ no common blueprint for the choice and design

◆ Choice of sectors:
  ▪ reflects national priorities

◆ Role of crediting instruments:
  ▪ support for domestic climate actions, policies, and/or markets

◆ Sources of demand:
  ▪ various approaches to mitigate risks of uncertain int. demand

◆ Roadmaps to implementation:
  ▪ many common elements, tailored to each country context
Criteria for assessing no-regrets market readiness efforts

1. Create readiness while minimizing potential “regrets”
2. Maximizes potential benefits
# Criterion 1: Creating readiness while minimizing regret

<table>
<thead>
<tr>
<th>Options for crediting-related activities</th>
<th>Domestic sectoral crediting</th>
<th>International sectoral crediting</th>
<th>International project-based crediting</th>
<th>ETS</th>
<th>Carbon tax</th>
<th>Results-based Finance</th>
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Disclaimer: subjective assessment based on the authors own interpretation
Decisions can be made to maximize flexibility only, but this is not a balanced approach.
Practical insights: creating readiness

- Focus on building broad institutional capacity (at least five countries e.g. Morocco, Tunisia)
- Budgetary flexibility e.g. use of RBF frameworks in Peru, Mexico
- Extensive development of data management and registries – in all eight countries
- Flexibility and resilience in the face of political change (Mexico, Chile)
- Relationship of MRPs with other initiatives e.g. broader climate strategies or NAMAs e.g. Mexico, Colombia
Criterion 2: Maximizing potential benefits

- Increasing political momentum for low-carbon developments
- Providing confidence to stakeholders that can stimulate low-carbon investment
- Broad support for mitigation policies
- Improving stakeholder engagement
- Improving co-ordination of mitigation activities and promoting synergies
- Learning by doing, leading to better policy design and implementation more rapidly
How can future PMR support for crediting-related activities support scaled-up mitigation?

Key findings

- Continue (and expand) its support for a mix of activities that both support specific crediting instruments and bring wider benefits by paving the way for broader mitigation policies.

- Consider more explicitly using the criteria creating readiness while minimizing regrets and maximizing benefits.

- What to consider to consolidate and maximize support:
  - Goals
  - Realistic expectations on pace of implementation
  - Stage of assessment
  - Evaluation and evolution
  - Synergies with other initiatives
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Additional slides
Key terms used in this study

◆ Crediting instrument:
  - An existing or new program or mechanism that a country develops (e.g., sectoral crediting in the cement sector) or participates in (e.g., CDM or NMM) that is capable of issuing credits

◆ Crediting-related activity:
  - specific element of a work plan undertaken in preparation for piloting, implementing, and/or participating in a given instrument (e.g. developing an MRV system for a cement sector crediting program)
## Instruments under consideration and development in 8 MRPs

<table>
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<tr>
<th>Country</th>
<th>Type of instrument(s)</th>
<th>Sectors covered</th>
<th>Sources of credit demand</th>
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| Colombia    | NAMAs with a crediting component                                                     | Urban transport                                                                  | Domestic (for domestic offsets through fuel carbon levy; vehicle importer/producer standard) Internatio
|             | Domestic offset scheme. Possible permit scheme for vehicle importers)                 |                                                                                 | nal (NAMAs with crediting component)                                                       |
| Costa Rica  | Domestic carbon market based on project-based crediting instruments for multiple sectors | 1<sup>st</sup> Phase: power generation, agriculture, solid waste, transport, and sustainable construction | Domestic (entities committing to carbon neutrality); Some activities may be supported via (crediting) NAMAs |
| Mexico      | NAMAs with a crediting component                                                     | Urban communities; urban transport; refrigeration                                 | International Domestico (compliance with tax or ETS?)                                      |
| Morocco     | Sectoral crediting                                                                    | Electricity; Cement; phosphates                                                  | International                                                                            |
| Peru        | NAMAs with a crediting component                                                     | Provisional scope: Energy supply, housing, industry, waste and transport         | International and possibly Domestic (under consideration)                                 |
| Thailand    | Voluntary energy performance certificate scheme (no carbon credits)                  | Energy production, industry and large commercial buildings                        | Domestic (pooled funds; voluntary market)                                                 |
|             | Project-based crediting                                                              | Municipalities and communities                                                    |                                                                                          |
| Tunisia     | Sectoral crediting                                                                    | Electricity; cement                                                              | International                                                                            |
| Vietnam     | NAMA with a crediting component                                                      | Steel; Solid waste                                                               | International                                                                            |
Common activities found in all eight PMR countries

- Policy analysis to assess instruments and coherence
- Enabling institutional and regulatory frameworks
- MRV capacity and systems
- GHG data management systems and/or registry

And other activities found in several, e.g.:

- Setting baselines and quantifying mitigation potential (Mexico, Morocco, Peru, Thailand, Tunisia and Vietnam).
- Instrument design (e.g. sectoral crediting in Morocco and Tunisia, NAMA crediting components in Peru and Vietnam)
- Piloting market-based instruments (Costa Rica, Colombia, Tunisia, Morocco, Thailand, Mexico and Vietnam)
- Developing domestic market infrastructure (Costa Rica, Thailand)
- Stakeholder participation, coordination of activities, strengthening the financial infrastructure, wider readiness capacity building activities….
Synthesis of the crediting-related activities supported in 8 MRPs

1. Analysis of policy options
2. Instrument design
3. Mitigation potential assessment
4. Data collection
5. Data management
6. MRV
7. Regulatory and Institutional frameworks and coordination
8. Quantification approaches (including baseline setting)
9. Crediting methodologies or protocols
10. Approaches to achieve net emission reductions
11. Registries for crediting projects and units
12. Creation or strengthening of domestic demand
13. Finance vehicles
14. Capacity building, engagement, and stakeholder participation
15. Piloting activities
16. Implementation activities
Climate policy frameworks under which crediting-related activities could catalyze scaled-up mitigation (1)

Various policy frameworks may include potential market and non-market mechanisms that countries may pursue to “scale up” mitigation action

**Market-based mechanisms**
- Domestic ETS
- Carbon tax
- Crediting instruments
  - Internationally-recognized crediting (e.g. via NMM or FVA)
  - Domestic voluntary crediting program
  - Domestic crediting program for domestic ETS/tax compliance

**Non-market mechanisms and finance options**
- Direct GHG regulation (e.g. performance standard)
- Finance options or vehicles
  - Results based finance
  - NAMA, climate finance
  - Other traditional finance options
How might crediting-related activities catalyze scaled-up mitigation?

◆ Creates readiness
  ▪ Facilitates frameworks for investment in scaled-up mitigation
  ▪ Enables greater access to climate finance
  ▪ Assists in the implementation of various mitigation-related policies from market to non-market instruments (see e.g., next slide)

◆ Maximizes potential benefits
  ▪ Increases institutional or political momentum for low-carbon investment
  ▪ Strengthens stakeholder engagement in mitigation opportunities
  ▪ Promotes synergies among mitigation-related activities

◆ Minimizes potential “regrets”
  ▪ Avoids risks of missed opportunities, e.g. by considering a wide range of potential future policy frameworks
  ▪ Is adaptable to changing circumstances, enables learning-by-doing
  ▪ Creates realistic expectations; avoids over-investing in activities highly dependent on uncertain market rules