CREDITING-RELATED ACTIVITIES UNDER THE PMR: CURRENT STATUS AND POSSIBLE WAYS FORWARD

PMR Note PA11 2015-3

March 2, 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. However, 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 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.

3. This note (PMR Note PA11 2015-3) presents key observations on the Implementing Countries’ crediting-related activities based on the above referenced Study and the PMR Secretariat views. The Note also outlines possible ways forward for PA consideration. Finally, the Note includes an Annex which provides more information, including suggested questions, for “Roundtable discussion” under agenda item 5 (Presentation of the Stocktaking Paper on the PMR Countries Scaled-up Emission Reduction Crediting Programs) at PA11.

II. Crediting-related Activities under the PMR: Key Observations

Based on the Study, the following are the key observations with regards to PMR crediting-related activities:

A. Status of crediting-related activities in the MRPs

4. Eight out of the seventeen PMR Implementing Countries include crediting as the principal market-based instrument in their MRPs¹. These countries envisage using crediting to incentivize emission reductions in a number of sectors, including: transport, waste management, urban, power, and heavy industries such as cement and steel (see Figure 1 for more information on the sectoral coverage of the

---

¹ Three other Implementing Countries are developing domestic credit markets as a compliance option for a carbon tax or ETS, and are not explored here: the CCER scheme in China; the offset component of the South African carbon tax; Mexican offset component of the carbon tax.
crediting-related activities under the PMR\(^2\). These crediting-related activities are primarily targeted at strengthening policy and legislative environment, technical capacity, and building “institutional infrastructure”.

5. **Implementing Countries focusing on crediting-related activities in their MRPs are at different stages of readiness.** Their choice of crediting instrument depends on each country’s unique national circumstances and development priorities. To this end, some countries have already indicated specific initiatives and investment programs to be supported by crediting instruments while, for others, the readiness activities will initially focus on a more detailed policy analysis aimed at ensuring consistency of proposed instrument with existing or planned climate policies and initiatives.

6. **The objectives of crediting-related activities that are put forward in Implementing Countries’ MRPs vary** - from an intention to complement existing climate policies and instruments (e.g. NAMAs) to using them as a way to build technical capacity as foundation to possibly introduce other market-based instruments, such as emissions trading, in the future.

*Figure 1 – Overview of the PMR Implementing Countries working on crediting instruments.*

7. **Implementing Countries have different considerations about the international and domestic sources of demand in the context of crediting instruments.**

   a) Some Implementing Countries expect demand for their domestic credits to be driven solely by the international market, at least in the initial phase of implementation.

---

\(^2\) On Fig.1, the greyed areas indicate that the policy choices in terms of sectoral coverage and use of domestic and international sources of demand are still to be finalized.
b) Some intend to generate domestic sources of demand for credits by using crediting to support the implementation of the existing and planned domestic climate policies and instruments (i.e., carbon levy/standards in transport, carbon neutrality objectives, and voluntary markets). Some of these countries do not exclude the potential for the international demand for their credits (through NAMAs with crediting components) to supplement domestic demand.

c) There is also an example where the crediting approach has evolved over time - from initially expecting to rely on international demand to now exploring how credits could be used under the domestic carbon tax and/or potential ETS.

d) Finally, some countries are yet to define the focus of their proposed crediting scheme and remain open to supporting their crediting scheme with both international and/or domestic demand.

8. Most of the Implementing Countries have incorporated an assessment of evolving national and international context into their MRPs, enabling them to make informed decisions in the future. Some, for example, have incorporated plans for a detailed reassessment of the sources of demand within their MRP roadmap. Others plan to incorporate similar reassessment at the design stage of their crediting instruments.

9. A number of crediting-related activities under the PMR have a broad applicability for almost all policy instruments, notably in the areas of data management, MRV and capacity building. For most activities, it is also possible to choose the design options that preserve or increase their flexibility to contribute to preparing to more than one possible policy instrument. As the readiness activities get more specific to a crediting instrument, they become less flexible, especially in terms of future or financial arrangements.

B. Role of crediting-related activities

10. Crediting instruments can play a role in a wider national climate policy development and foster mitigation action under multiple policy instruments. This can be achieved by taking a flexible approach that improves readiness while minimizing regrets and/or through activities that maximize co-benefits for the Implementing Countries. Examples of minimizing regrets include data analysis and management, quantification, and baseline determination, all with a broad applicability for various market and non-market mechanisms, policies and funding approaches. Advancing specific regulatory frameworks, developing domestic sources of demand, and setting up finance vehicles are examples of maximizing benefits, considering that these activities can help build a political momentum and involve a broad stakeholders’ engagement.

11. It may be useful to continue and expand the PMR support to a range of activities that both support specific crediting instruments and pave the way for broader mitigation policies. This can be done by using the suggested criteria for building readiness while minimizing regrets and maximizing benefits. It can also mean expanding the goals of PMR activities more explicitly and supporting activities that serve multiple instruments, such as those related to baseline, MRV, introduction of results-based finance or regulatory systems in their design. Also, there is a need to identify ways to avoid duplication
and maximize synergies with other initiatives supporting both market and non-market instruments of climate policy (e.g., GCF, NAMA Facility, GIZ, EBRD PETER and others).³

12. In conclusion, planned readiness-related activities under the MRPs could be more effective in achieving the desired policy outcomes if they are designed and implemented in a way that is adaptable to any future developments and accommodates multiple potential policy goals. With regards to this, there are at least four possible goals that the crediting-related readiness activities could support and for which the PMR could provide readiness support:

a) Crediting supported by national and/or international demand;

b) Carbon pricing instruments such as emissions trading or carbon tax;

c) Result-based financing as a tool to channel international climate finance;

d) A broader policy, legislative and institutional framework to incentivize low carbon investment.

III. Action by PA

13. The PA is invited to discuss ways of shaping and consolidating further PMR support to crediting-related activities. In an effort to facilitate further discussions on the Implementing Countries’ crediting-related activities, a dedicated session will be organized at PA11 (See Annex for more information on the Roundtable structure and suggested topics).

---

³ The preliminary findings of the study were presented and discussed at the PA meeting in Santiago, Chile in November 2014. The draft of the study is being shared together with this note.
Annex:

Roundtable Discussion at PA11 (PMR Countries Scaled-up Emission Reduction Crediting Programs)

March 10, 2015

Roundtable Discussion: Background and Objectives

The Roundtable discussion will build on the findings of the PMR commissioned study “Crediting-related activities under the PMR: Status and support for implementation” as well the PMR Secretariat observations. The session will serve as an opportunity for PMR Participants to provide feedback on the above mentioned Study, as well as exchange views on the ways forward for the PMR support to the crediting-related activities. As such, the session has two objectives: (1) to inform the future PMR support with regards to crediting-related activities; and (2) to help identify possible implications of the these activities on other PMR work streams, such as technical work program.

Roundtable Discussion: Structure

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 minutes</td>
<td>Presentation of main findings of the study “Crediting-related activities under the PMR: Status and support for implementation” and the PMR Secretariat observations in this regard, followed by a briefing on the consultation on a Fund for Scaled-up Crediting.</td>
</tr>
<tr>
<td>1 hour 15 minutes</td>
<td>The group discussion will start with the remarks from the Implementing Countries which are pursuing crediting-related activities in their Market Readiness Proposals (MRPs). Suggested questions to be covered in rest of the group discussions are presented below.</td>
</tr>
<tr>
<td>35 minutes</td>
<td>The groups will report back to the PA summarizing the key points of their discussions and providing inputs to the overall recommendations of this session.</td>
</tr>
</tbody>
</table>
Roundtable Discussion: Suggested Topics

1. **Status of crediting-related activities under the PMR and implications of the evolving context**
   - What are the main factors (both at national and international levels), which are expected to have significant impacts on the planned crediting-related activities?
   - Are other policies, instruments or measures being actively considered in addition to crediting (e.g., results-based financing (RBF), climate finance, broader low carbon investment frameworks)?
   - Are there additional areas (compared to those covered in MRPs) where the PMR’s policy or technical support is needed?

2. **The role of crediting-related activities in the future**
   - Will crediting-related activities have the potential to support a broader range of climate policies (ETS or carbon tax, RBF, low-carbon investments, etc.)?
   - Can the value of crediting-related activities that are being planned or implemented under the MRPs be increased by stimulating their flexibility to support other climate policy instruments?
   - Assuming potentially broader role of crediting-related activities in the future, would additional support to Implementing Countries be needed?

3. **Ways forward for the PMR’s support to crediting-related activities**
   - Should the PMR support crediting-related activities in a way that they can both serve specific crediting instruments and bring wider benefits by paving the way for broader mitigation policies?
   - Recognizing potential multiple benefits of crediting-related activities, should the PMR expand its support in areas such as readiness for RBF, and for building low carbon investment frameworks?
   - What are the best ways for the PMR to ensure effective interaction and coordination with other support initiatives in this space (e.g. with GCF, NAMA Facility, GiZ, EBRD, PETER, Fund for Scaled-up Crediting, etc.)?
   - How should this potentially expanded work stream be structured in order to effectively mobilize support and enhance knowledge sharing (e.g. around the choice of instrument, readiness stage, common technical topics, etc.)?