STRATEGIC ORIENTATION FOR THE FUTURE OF THE PMR:
PILOTING SCALED-UP EMISSION REDUCTION PROGRAMS

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PRICING CARBON AND SHAPING THE NEXT GENERATION OF CARBON MARKETS
Strategic Orientation for the Future of the PMR

- Deepen Readiness Support
  - Strengthen and expand upstream policy analysis
  - Enhance PMR technical work program and support “3Cs”
  - Expand provision of expert support to countries
  - Support South-South Exchange

- Broaden the Reach and Scope of the PMR
  - Expand number of PMR Implementing Country Participants
  - Creating a new category of countries and targeted support

- Support Piloting Scaled-up ER Programs

- Prepare for PMR Round II
  - Keep US$10 million reserve for PMR Round II
Outline

1. PILOTING: BACKGROUND, DEFINITION AND RATIONALE
2. EXPERIENCE AND LESSONS FROM THE FCPF
3. LEVERAGING THE WORK PROGRAM OF THE CPF’S CADF
4. PRELIMINARY IDENTIFICATION OF PILOT PROGRAMS
5. BRIDGING GAPS TO MOVE FROM READINESS TO IMPLEMENTATION
6. NEXT STEPS
Moving from Readiness to Piloting

Piloting = one of the original and core objectives of the PMR

What does “PILOTING” mean in this context?

Set of activities developed by a country to test one or more core readiness component(s)

Incentivize the implementation of scaled-up crediting programs through the provision of performance-based payments

Indepedently verified ERs

Directed towards the international carbon market

Today
Why is piloting important?

1. Help understand how market-based instruments (MBIs) can work for large-scale ER programs, and what they can deliver

2. Induce the experimentation of activities that go beyond “no-regret measures”

3. Generate lessons and valuable learning beyond a market-based approach, directly applicable for shaping flows of public climate finance as well
Filling the gap

**Readiness** ➔ **Implementation**

- Readiness Assessment
- ER Program Assessment

Significant support needed to provide a strong and immediate signal to scale up mitigation efforts
The Forest Carbon Partnership Facility (FCPF)

◆ A collaborative partnership & transparent platform for meaningful exchanges on REDD+
  ▪ Pioneered REDD+ readiness preparation process
  ▪ Innovative and transparent governance
  ▪ Country-driven process of presenting and discussing readiness preparation proposals
  ▪ Facilitates in-country cross-sector and stakeholder dialogues

◆ Core objectives are to
  ▪ Build financial and technical capacity for REDD+
  ▪ Pilot emissions reduction programs
  ▪ Sustain, enhance livelihoods and biodiversity
  ▪ Disseminate knowledge
FCPF: Structure and Governance

Secretariat (FMT)

Trustee (World Bank)

Participants Assembly (PA)
incl. Observers from IPs & CSOs

Participants Committee (PC)
incl. Observers from IPs & CSOs

Technical Advisory Panels (TAPs)

READINESS FUND
- 36 countries
- Grants and technical assistance
  Since 2008
  $360 million

CARBON FUND
- about 5 countries
- Payments for verified emission reductions
  Since 2011
  $450 million

Delivery Partners

PiLoting Scaled-Up EmIssIon RedUction ProGrAmS
8th Partnership assembly meeting
Mexico, March 2014
From Readiness to Piloting

- Readiness Fund
- R-PP Assessment
- Midterm Progress Report
- R-Package Assessment
- R-Package must be endorsed by the PC before an ER Program is submitted and an ERPA is signed.
- National REDD+ Strategy Implementation
- Carbon Fund
- Emission Reductions Program Idea Note (ER-PIN)
- Emission Reductions Program Document (ERP)
- Signature of Emission Reductions Payment Agreement (ERPA)

Upon selection of the ER-PIN into the Carbon Fund pipeline, a legally-binding Letter of Intent is signed.
The same standard for all countries ...??
... or rather: a thorough self-assessment!
A comprehensive Readiness Assessment Framework to assess progress in a structured and transparent fashion

- Broad input from Participants and Observers over 2-year period

Two-stage assessment followed by PC endorsement

- National multi-stakeholder self-assessment
- Assessment by Participants (with input from Technical Advisory Panel)
Covers all major Readiness Components

- Readiness Organization and Consultation
- REDD+ Strategy Preparation
- Reference Emissions Levels/Reference Levels
- Monitoring Systems for Forests; Safeguards

Measures progress via

- 34 assessment criteria and 58 diagnostic questions; provides good practice examples and references

Identifies gaps and actions going forward
Participants adopted Methodological Framework (Dec. ’12)

- A critical component to guide REDD+ countries ER Programs design to meet Carbon Fund requirements
- Assist review by Carbon Fund Participants
- Result of a 2-year inclusive process with Fund Participants, technical experts, civil society and indigenous peoples observers

Consists of 5 major components:

- Level of ambition
- Carbon accounting
- Safeguards
- Sustainable program design and implementation
- ER program transactions

Business process from ER-PIN to ER-PD
Potential ER Programs

- Mexico
- Costa Rica
- Colombia
- Peru
- Chile
- Argentina
- Ghana
- Rep of Congo
- Ethiopia
- DRC
- Nepal
- Vietnam
- Indonesia

- Announced presentation for CF9
- Early idea presented
- ER-PIN presented
- Selected into pipeline, LOL signed
The notion of ‘being ready’ has evolved

- Piloting needs to overlap with readiness phase: brings focus, creates efficiency
- Standard measures of readiness progress (milestones) are useful, though countries have vastly different contexts

For many countries readiness amounts to no-regrets actions

- A sustained effort of capacity building is needed in many countries to start addressing key policy and capacity challenges related to forests
- Create foundation for better management of forests going forward, though transacting on REDD+ unlikely in the short-term
Piloting (developing a portfolio of ER programs) hinges on:
- a transparent, inclusive process; mutual learning (investors and countries)
- clear, simple, robust guidance to countries

... and requires a step-wise, iterative process

Financing for underlying investments is crucial (and often missing)
- Requires blending of instruments and donor coordination
The Carbon Partnership Facility (CPF)

CPF

CADF
Prepare and implement ER programs

Carbon Fund
Purchase carbon credits from the ER programs
Leveraging CADF’s work program

Current conceptual work program on MBI pilots could also be leveraged

- Supporting the design of “blueprints”
- Targeting broad segments of the economy

Specific work programs

- MBI for mitigation actions in cities
- Economy-wide policy MRV
- Initial ideas for MBI pilots at the country level
Going beyond “no regret” measures

Interest from Implementing Country Participants in exploring scaled-up ER programs at sectoral or national level

PMR process provides to design these programs and build market readiness infrastructure support but:

| Lack of international demand for ERs | “No regret” readiness preparation measures | Change course of action, in part or in whole |

Opportunity to pilot ER transactions in connection with a payment facility would be very important in order to:

| Show the international community what works and what doesn’t | Create demand and encourage countries to pilot MBIs | Generate experience to help define the next generation of carbon markets and climate finance instruments |
Potential candidates include:

- Countries that have indicated their interest in piloting scaled-up crediting mechanisms at a sectoral or national level (Indonesia, Mexico, Morocco, Jordan, Peru and Vietnam (+Tunisia?))
- Other countries (e.g., Costa Rica and Colombia) that have left the door open to pilot performance-based payments for international credits
- Other non-PMR countries that are interested in piloting crediting mechanisms

In all cases, further work will be required to analyze the gaps that exist between readiness and pilot implementation, and how they can be filled
Key issues to be addressed in designing a fund

- How to move from readiness preparation to piloting?
- How to design the carbon purchasing fund?
Moving from readiness preparation to piloting

MARKET READINESS PREPARATION
The PMR provides support to help implementing countries improve their technical and institutional capacity for using market instruments to scale up mitigation efforts.

READINESS ASSESSMENT
At the end of readiness preparation, countries can measure and demonstrate their progress on core readiness activities based on a Readiness Assessment Framework.

ER PROGRAM ASSESSMENT
The piloting fund would select emissions reductions programs for early piloting, to be prepared in accordance with a Methodological Framework.

PILOTING THROUGH ER PAYMENTS
A carbon purchasing fund would pilot performance-based payments for emissions reductions from scaled-up crediting programs and other mechanisms.
Design of the carbon purchasing fund (1/2)

- Autonomy, including independence in the decision-making process, and specific governance structure
- BUT ensuring a close relationship with the PMR process is essential.

- Exact nature of the relationship between the fund and the PMR would be made explicit in a design document (DD);
- Include arrangements to accommodate a range of different funding motivations
- Regardless of the option, all ERs would be of comparable quality and expected to generate real, measurable reductions verified against common standards
Next steps

- World Bank to draft a design document
- Creation of Working Group:
  - With interested Country Participants
  - To provide feedback to the WB during the process
  - To ensure that the issues articulated in the note are incorporated appropriately into the first public draft

- Consultation process between WB and WG
- WB to report back to the PA on the inputs and status of the design document
- Work and consultations will be funded by the World Bank with the expectation that costs will be recovered from participants in the fund at a later time
Thank you for your attention!
¡Gracias por su atención!

Pricing Carbon and Shaping the Next Generation of Carbon Markets
1. Emission Reductions Program Idea Note (ER PIN) submitted (REDD+ Country or authorized entity)

2. ER PIN reviewed + selected into pipeline (Carbon Fund Participants and World Bank)

3. Letter of Intent (LOI) signed (REDD+ Country/authorized entity and World Bank)

4. Draft ER Program Document prepared (REDD+ Country/authorized entity with technical support from the World Bank)

5. ER Program Document (ERPD) submitted (REDD+ Country or authorized entity)

6. ER PD reviewed + selected (Carbon Fund Participants and World Bank)

7. Emission Reductions Payment Agreement (ERPA) Negotiation + Signing (World Bank and Carbon Fund Participants)

8. Implementation, Verification, Payments (Carbon Fund Participants and REDD+ country/authorized entity)

ER Program Due Diligence
Includes assessing technical (e.g., RL, MRV) and programmatic elements (e.g., sub-national arrangements, benefits sharing) in accordance with Carbon Fund’s Methodological Framework
(FMT, Carbon Fund Participants)

World Bank Due Diligence
Program appraisal and Safeguards assessment (includes assessment of associated economic, technical, institutional, financial issues and risks, and social and environmental safeguards)
(World Bank)

Readiness Package submitted (REDD+ Country) and endorsed (FCPF Participants)