Status update on markets and finance in international cooperation and Agenda to prepare a “Rulebook” in 2018

WBG Technical Workshop
Barcelona May 22-23 2017
Massamba Thioye
Invites the COP to continue to oversee the implementation of the work programme under the PA, and to accelerate work and forward the outcomes at the latest to CMA 1.3 to be convened in conjunction with COP24 (December 2018).

Invites the COP to request the SBSTA, the SBI, the APA and the constituted bodies under the Convention to accelerate their work on the work programme, and to forward the outcomes to COP24 at the latest;
Requests the SBSTA to develop and recommend the guidance referred to under Art. 6.2, rules, modalities and procedures for the mechanism established by Art. 6.4 and to undertake a work programme under the framework for non-market approaches to sustainable development referred to in Art 6.8.

SBSTA 45 invited Parties to submit their views on, inter alia, the elements to be addressed in the guidance in Art 6.2, in the rules, M&P in Art 6.4 and in the decision on the work programme in Art 6.9 overarching issues, and relationships between them and with other provisions of the PA, the Convention and its related legal instruments, as relevant.

SBSTA 46: Submission by Parties, Round Table and informal document
21 submissions on Article 6.2

Overarching issues and principles vs no overarching issues/principles
Voluntary cooperation, Incentive for higher ambitions, EI, Transparency
Sustainable development and/or Preserving national prerogatives
Bottom up approach vs top down approach
Equal treatment of Article 6.2 and Article 6.4 vs distinctive nature
Avoiding negative social, economic and ecological impacts of ITMOs

**Governance**
Requires supervisory body, for centralized oversight, multilaterally agreed, the same for all three mechanisms
DNAs to oversee, effective national governance of ITMOs and price controls in a decentralized bottom up approach under the authority of the Parties
21 submissions on Article 6.2

Scope of 6.2 guidance
Accounting only vs accounting and ensuring the quality of the ITMOs
Need to address weak demand
No additional guidance on REDD+ needed under 6

Participation
Ratification of PA, submission of NDCs, national accrediting institutions for cooperative approaches, national registry linked to ITL vs only if acquiring units, as supplier achievement of its NDC

Environmental Integrity and transparency
ITMOS are real, verified, measurable, permanent, additional, long term, double counting, leakage, hot air are addressed and related information is comprehensive and publicly available
21 submissions on Article 6.2

Sustainable development
National prerogative and no UNFCCC definition vs SDGs as a minimum vs in line with Parties’ strategy for implementing SDG vs addressed by the guidance through criteria applied to investment in 6.2 activities

ITMOs
Measured in tCO2e and surplus to NDC’s needs; Mitigation co benefits of adaptation and adaptation cooperation

Type of and Information on NDCs
Quantification of mitigation required vs not required
Limitations based on NDC type vs no limitations
Initial info on guidance’s implementation, updated info on progress, final info to settle corresponding adjustment
Emissions pathway, period/vintage/tracking of ITMOs, share for NDC and other uses; Biennial reporting on SD, EI, transparency including in governance
21 submissions on Article 6.2

Accounting method/ Corresponding adjustment
Subtraction from emission upon transfer and addition to emissions or deduction from removals in all cases, regardless of the use and whether ER within the scope of NDC or not;
Introduce “equivalence” or “convertibility” for non-GHG targets
Aligned with IPCC guidelines and if not disclosure and third party verification

Registries and International Transaction Log
All issued units initially held in central registry and if transferred then accounted for under 6.2 and transactions in publicly accessible national or multilateral registry; International transaction log required to track transfer;
Need analysis of registry functionalities required for developing countries;
No need for national registry if no intend to acquire units.

Reporting
Reporting ITMO issued, acquired and transferred, retired and cancelled through BR/BUR but separated from inventory;
Relation with 6.4
Comparability and fungibility with credits/units under art 6.4
Similar application of share of proceeds/overall mitigation vs not in the PA

Supplementarity /limits to trading/ banking/ secondary transfers
Sale of ITMOs only if overperformance compared to NDC.
Only a maximum 20% of the NDC can be achieved through use of ITMO
No banking and no secondary transfer. Cancellation if not used
Overarching issues and principles vs no overarching issues/principles
To a large extent the same as 6.2

Governance of the mechanism
Supervisory body under guidance of CMA, with parity developing/developed country Parties
Review composition, role, responsibility, com, relation with other bodies
Develop tool, standards, procedures and assess conformity
DNA to oversee all transactions to EI and transparency
Local Stakeholder Consultations including indigenous people
Operational cost supported by users
Scope of the mechanism/relationship with NDC
All NDC types, all sectors, project based, programmatic, sectoral and other
Cover activities inside (JI like) and outside (CDM like) NDC boundaries
UN certifier for other mechanism
Tool for policy making and tracking results
REDD+ excluded vs considered in the future

Project cycle
Like CDM but crediting period limited and subject to review based on GST cycle. Principle at the M&P level and elaboration by the supervisory body
Methodologies, emission reductions and baselines

ER real, measurable, verifiable, additional, permanent, conservative, provide long term benefit, credited in tCO2eq, with ownership tracked.

Baselines well below conservative estimates except within the scope of NDC, not counterfactual, include all national policies, dynamic, ambitious (e.g. BAT or benchmarking), use standardised baselines

Shorter crediting periods that reflect NDC timelines and do not undermine additionality;

Address leakage, non-permanence, reversal, lock in fossil fuel technology

Overall mitigation

Net ER, discount when demonstrating achievement of NDCs – certain % cancelled after transfer vs cancellation on issuance (e.g. 20% vs based on type of projects); Mandatory vs voluntary

Mitigation co-benefits of adaptation and economic diversification plans considered.
Additionality
Positive and negative lists, objective tools reassessed periodically, stronger than CDM additionality, make feasible activities that would not occur in its absence, relating to temperature goal, could be extrapolated beyond a baseline-and-credit mechanism to mean for example stringent caps.

Sustainable Development
SDGs bring a new context. They can serve as guidance with other international tools vs no definition of SD or how Party should promote it.
National development priorities identified at the national level with national monitoring by national authority
Achieve the sustainable development gradually through manageable sustainable transition.

Environmental Integrity
Compliance with methodologies
EI is inflated in the PA and this may result in it losing its main goal.
21 submissions on Article 6.4

Relation to 6.2 and corresponding adjustment
Any credit used for NDC is an ITMO and should comply to the accounting guidance on 6.2; No double counting rules under art. 6.4
Consistency between methods and methodologies for preparing national inventories and for calculating ITMOs under art 6.2 and ERs under 6.4

Safeguards/controls/limits/thresholds
Controls governing transfer for swift clearing and no offsets
Limit quantity to promote national action, supplementarity
Address negative social and economic impacts
No secondary trading to avoid fraud; National anti-fraud legislation as a prerequisite for participation in transactions
Review the mechanism through the GST and at any time by Board for recommendations to CMA and make appropriate changes
Share of proceeds
For Adaptation Fund and SD for developing country Parties
Fixed percentage at issuance, Increased to 5 per cent. Avoid accrual of administrative expenses of portion to direct to adaptation

CDM transition
Rules and infrastructure same as CDM vs many rules could be replicated including CDM reforms rules, while adjusting to fit PA vs Like CDM If project outside NDC and like JI if inside
CERs pre-2020 presents various migration challenges, make reasonable transfer vs eligibility of all existing CERs to contribute to early action
Continuation of (i) all registered CDM project activities vs (ii) all projects in compliance with 6.4 vs (iii) Vulnerable CDM projects that would stop without CDM revenues if in compliance with 6.4 and reassessment of additionality

Timing of discussion: After Art 6.4 rules are set

Lessons learned from existing mechanisms: Draft revised JI guidelines, and JI lessons learned documents CDM Review are relevant
Identification of non-market approaches

Non-tradeable, any effort/action/activity that is not reliant on trading
Whose purpose, aim are to address CC at the national level
Do not infringe rights, have comprehensive stakeholder consultation
Not be used for unfair competition/restriction on trade

Includes: Adaptation Benefits Mechanism, NAMAs – shifting sectors or subsectors towards low carbon economy, black carbon reduction, efficiency standards, conservation of oceans and other ecosystems, fuel economy standards, feed in tariffs, Socio-ecological resilience, joint mitigation and adaptation activities for sustainable management of forests, emissions avoidance, justice-based schemes, ecosystem based adaptation, Integrated water management, Sustainability standards and global environmental labels, Removal of fossil fuel subsidies Measures to lower climate related risks, R&D projects, fiscal instruments, facilitate access to support and MoI to help parties in implementing their NDCs
16 submissions on Article 6.8

Thematic areas for non-market approaches

Build on outputs of TEPS such as opportunities to (a) progress the reduction/removal/reform of fossil fuel subsidies, (b) increase deployment of RE tech in power generation and (c) phase out inefficient and polluting tech

The framework for non-market approaches

Must: enhance linkages and synergies between existing mechanisms without duplication, define scope for which developed countries would provide support, provide funding for developing countries to implement conditional parts of NDCs, promote mitigation and adaptation ambition.

Governance of the Framework

Body coordinating and overseeing the progress of the work programme; facilitative panel; Institutional arrangements, building on existing processes across the Convention and the PA.
Operationalizing the work programme

Step one – identify NMA that are relevant, two, identify existing linkages, synergy for cross cutting policy approaches to leverage mitigation and adaptation co benefits and also financing, TT and CB, third identify opportunities for enhancement of that and fourth, assess results and draw conclusions. Finalise step 1 in May 2017. Two and three in parallel.

Use submissions, workshops summaries, case study/best practices presentations, identification of international, regional, private sector, communities initiatives available to support Parties, synthesis reports.

Instruments for international cooperation including support and international assistance (guidance, registries of needs and matching facilities).

Decision on work programme

Address thematic areas for consideration, modalities & timeframe for their consideration, process for identifying additional thematic areas, outputs and recommendations; Use sharing by doing with an open source system.
Financed in the preparation of the Paris rule book

Under the UNFCCC process, the negotiation on finance is focused mainly on 4 aspects:

• **Goal setting** through the **long-term climate finance**
• **Mobilization** of climate finance through **GCF/GEF**
• **Tracking** of climate finance under transparency for support through the **Guidance to the Standing Committee on Finance and the mandate received by SBSTA to develop Modalities for the accounting of financial resources provided and mobilized through public interventions**
• **Stock tacking** with the **facilitative dialogue** and the **Global Stock Take**.
The SBSTA 46 agreed to advance its work on this matter at SBSTA 47, taking into account the informal note by the co-chairs and building on the recommendations by the SCF on the 2016 biennial assessment and overview of climate finance flows (Biennial assessment).
COP Decisions: Recommendations from the SCF

(a) Invite Parties to consider the 2016 BAOCFF in order to improve guidelines for the preparation and reporting of financial information, and to develop the M&P and guidelines for the transparency of support.

(b) Request the SCF to cooperate with relevant institutions and experts;

**Engaging international organizations and private sector**

(c) Encourage climate finance providers to enhance the availability of granular, country-level data.

(d) Encourage relevant institutions and experts to provide practical options for estimating/collecting data on private climate finance;
Ownership, needs and impact

(e) Encourage developing countries to strengthen their institutional capacity to programme their priority climate actions and track and report climate finance;

(f) Request the SCF in preparing future BAOCFF to assess available information on investment needs and plans related to Parties’ NDCs/NAPs;

(g) Encourage Parties and relevant international institutions to enhance the availability of information necessary for tracking global progress on the LT goals of the PA;

(h) Invite the GCF’s Board to consider information in the BAOCFF in its annual dialogues with climate finance delivery channels in order to enhance complementarity and coherence between the GCF and other funds;

(i) Invite multilateral climate funds, MDBs, other FIs and relevant international organizations to continue working to further harmonize methods for measuring climate finance and for tracking and reporting on impacts.
Modalities for the accounting of financial resources provided and mobilized through public interventions: informal note by the co-chairs

Cross-cutting considerations

Considerations for elements, including underlying assumptions, definitions and methodologies

- Definitions, assumptions and methodologies for each parameter;
- Year; Currency; Status (disbursed and committed); Funding source;
- Financial instrument (grant, concessional/non-concessional loan, equity);
- Type of support (mitigation, adaptation, cross-cutting, other);
- Sector
- Electronic reporting application that facilitates direct transfer of information from other data sources to the system under the Convention
- Lessons learned, within and outside the Convention related to the modalities for the accounting of financial resources
- When and how it could be incorporated into the modalities, procedures and guidelines for the transparency
Modalities for the accounting of financial resources provided and mobilized through public interventions: informal note by the co-chairs

Additional potential considerations:

What counts as climate finance, with an operational definition? through provision of information on boundaries/criteria such as climate relevance and the geographical origin? through funding of NDCs?

How the climate finance counted is new and additional;

Harmonization of reporting approaches across Parties:

• Which currency exchange rates to use;
• How to count finance committed and/or disbursed;
• How to report funding sources;

References to official documentation to indicate the status of funds

How to report various financial instruments, for example, the reporting of the grant-equivalent when different financial instruments are used;

Mutual agreement/cross-checking with recipients before submitting information;

How to capture the notion of scale-up and progression of climate finance;

Encouragement of all Parties that provide support to use the accounting modalities.
Modalities for the accounting of financial resources provided and mobilized through public interventions: informal note by the co-chairs

Climate finance provided through bilateral, regional and other channels

Considerations for elements, including underlying definitions, assumptions and methodologies:

Recipient country/region/project/programme/activity:

• How to facilitate more granularity through the provision of project- and activity-level information

Climate-specific:

• More clarity on what each Party counts as climate finance

Additional potential considerations:

Facilitate better tracking and avoid double counting

Provision of information on transaction and overhead costs, loan repayments and return on investments;

Provision of information on implementing agencies.
Modalities for the accounting of financial resources provided and mobilized through public interventions: informal note by the co-chairs

Climate finance provided through multilateral channels

Considerations for elements, including underlying definitions, assumptions and methodologies:

Multilateral climate change funds; multilateral financial institutions, including regional development banks; and specialized United Nations bodies;

• Differentiation of reporting per subchannel;

• Provision of information on bilateral funds provided through multilateral channels;

Core/general:

• Reporting of only the climate-specific amount of core contributions

• Avoidance of double counting;

Climate-specific:

• More clarity on the criteria used by Parties and IFIs to identify contributions and outflows, respectively, as being climate-specific.

Additional potential considerations:

Facilitation of understanding on the outflow of finance from multilateral channels to developing country Parties.
Climate finance mobilized through public interventions

Potential considerations, while recognizing challenges and limitations:

- Differentiation of mobilized climate finance and provided climate finance;
- Development of a common understanding of mobilization;
- Harmonization of methodologies (e.g. reporting on co-financing, causality and attribution);
- Boundaries of tracking mobilized finance through public interventions, (e.g. direct mobilization, indirect mobilization, transformational impact/enabling environments, capacity-building, technology transfer and public policies);
- Development of simple standardized/common reporting format to facilitate consistency of quantitative reporting across Parties;
- Provision of qualitative information such as good practices on public policy and regulatory frameworks incentivise further private climate financing and investments;
- Option for collective reporting where the double counting risk is high;
Thank You