ASSESSING SOURCES OF DEMAND
INTERNATIONAL AND NATIONAL PERSPECTIVE

PEDRO MARTINS BARATA

Day 2: Session 3
Financing options to implement scaled-up crediting pre and post 2020
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Overview

- Get2C and Carbon Counts are currently developing with WB a Technical Note on “international and domestic sources of demand for scaled-up crediting programs”
- Technical Note inserted in a broader design of a **Crediting Guidance Document**

**Guidance Document**

Will provide practical guiding principles for the design & implementation of crediting instruments and programs

**Technical Note "#1"**

Assessing and mobilizing sources of demand

**Technical Note "#2"**

Baseline Setting in the context of broader policy development

**Technical Note "#3"**

MRV approaches beyond facilit-level

- Provide an overview of the main existing and potential sources of demand (international and domestic level)
- Identify & develop the main issues that currently arise from the development both of new crediting protocols and new demand channels within a more fragmented carbon market architecture
Overview

- What the international demand is for (type of assets in demand)?
- What is the scale of demand channeled through different mechanisms and intermediaries?
- What are the main requirements to access these demand vehicles?
- How to efficiently combine different sources of demand/financing to ensure that the scaled-up crediting instruments are used strategically to achieve NDC objectives?
- What are the frameworks and tools that can be used to identify sources of credit supply?
- What are the potential implications of choosing a crediting route on other policy initiatives?
- How to mobilize resources to ensure implementation of crediting programs?
Overview

The future use of scaled-up crediting can be expected to involve:

- Customization towards specific host country needs
- Mobilizing international and domestic sources of demand
- Robust and simple MRV system
- Consistent and comparable baselines across jurisdictions
- Compliance with NDC and ITMO accounting guidance to be developed under the UNFCCC
- Potential integration/linkage based on internationally agreed processes, systems and standards
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Existing and potential demand sources

What the international demand is for? What type of assets? What are the main trends?

• **Compliance markets (implemented or scheduled for implementation)**
  - ETS: EU-ETS, Korean ETS, New Zealand ETS, RGGI, China ETS Systems, …
  - Carbon Tax: Mexico, South Africa, Chile, Portugal, …
  - Hybrid schemes: South Korea, Switzerland, …

• **Voluntary Markets**
  - Companies, institutions or end-users voluntarily want to “offset” their emissions
  - VCS and GS dominate buyer preferences

• **Climate finance instruments**
  - Serve as “receipts” for emissions reductions under e.g results-based finance schemes and “green bonds” (e.g Ci-Dev, TCAF, PAF, NEFCO Norwegian Carbon Facility …)
Existing and potential demand sources

What key distinctive/common features of mitigation outcomes are being demanded?

- **Domestic priority**
  > More and more initiatives are now geared towards achievement of domestic mitigation reductions and harnessing of domestic efficient reductions.

- **Focus on transformational and scaled-up nature of credited activities**
  > Stress is on protocols geared towards higher scale of emission reductions, less in terms of volume but rather in promotion of activities that have wider carbon reduction implications.

- **Focus on co-benefits (in particular in relation to sustainable development)**

- **Impact of INDCs and “own contribution”**
  > There is less scope for crediting activities that do not have an impact on the accounting for emission reductions overall.
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Credit Supply Considerations

As countries establish their different frameworks (e.g. LECBs, LCDs), crediting may have an important role in both securing finance and awarding visibility to mitigation efforts.

- What are the frameworks and tools that can be used to identify potential sources of credit supply and how they can be utilized and integrated in broader energy/climate policies?

- How can these provide a basis for identifying mitigation opportunities, designing mitigation policies and identifying sectors and activities that may be suitable for developing crediting programmes?

- What related policy environments can play a role in supporting the implementation of a crediting system and its mitigation activities?

- What are the institutions, governance arrangements and costs needed to support and administer the relevant standards and processes?
1) Identify and prioritize crediting potential

- Tools to identify and assess techno-economic mitigation potential (e.g. MACC analysis)
- Modelling of alternative energy and emissions pathways to characterize mitigation potential (e.g. LEAP model; MAPS Programme etc)
- Models and tools to understand wider economic impacts and alignment with national policy aims (e.g. CGE modelling)
- Framework and toolkits used in support of Low Carbon Growth Plans and Low Emissions Development Strategies (LEDS); Technology Needs Assessments (TNAs) and Technology Action Plans (TAPs)
- NAMA frameworks (e.g. UNFCCC best practice guidance; UNEP guidance; GIZ; IRENA; IISD)
Credit Supply Considerations

2) Interaction with policy environment

- What are the potential implications of choosing a crediting route rather than other policy initiatives?

- How to discern between those policies and measures that from a policymakers’ perspectives should be considered within the baseline of any such programme?
  - Any overlap will also result in an inefficient and unequal use of resources within society

- How countries could potentially prioritize project types in light of national policy aims/preferences in respect of attracting international climate finance?
  - e.g. Host country approval process under the CDM which effectively prioritized project types
Credit Supply Considerations

3) Institutional arrangements

- How to map out and characterize the governance arrangements, institutional needs and related costs of implementing national trading and/or crediting schemes?

- What are the types of agencies involved in scheme operation and enforcement?
  - e.g. MRV, revenue collection, ...

- The issues and potential costs involved in establishing such institutional architecture
  - e.g. lessons from CDM experience, including transaction costs, etc
Credit Supply Considerations

4) Developments under the Paris Agreement

- Possible scenarios for how crediting may develop under the Paris Agreement
  - Article 6 mechanism governed under the UNFCCC
  - Crediting systems put in place at the national level, as recognized under the cooperative approaches aspects of Article 6.

- Possible implications for national or regional crediting systems. How they may coexist or complement and synergize with each other?

- Accounting for NDCs and for international transfers of mitigation outcomes that are used to fulfil NDCs.
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Means to mobilize private and public resources

- What type of actions can help implement crediting programs?

- What are the potential ways to mobilise such funds/finance?
  > Principles of engaging different public/private actors; what are their different roles?

- The role of building domestic demand in preparation of increased international demand for crediting, future scheme linkage etc
  > Pre-2020 ‘readiness’, including developing robust standards and MRV for domestic schemes, pilot activities etc, to help enable attraction of international demand/finance in future

- What are the potential ways in which resources can be mobilized and the possible sources of funding/finance?
Means to mobilize private and public resources

Offsetting of compliance obligations

- Offsetting can take place within different types of compliance obligation (ETS, Carbon taxes, etc). What are the key considerations across these different policies?
- How can resources be mobilized and investment leveraged? Cost considerations include:
  - **Start-up costs** related to the design and implementation of domestic offset legislative structure and methodological framework; and
  - **Administrative costs** associated with the day to day running of the scheme, including the costs of assessing additionality, leakage, MRV etc

- Examples on:
  - South Africa and/or Mexico: combining carbon taxes with offsets
  - Republic of Korea Combining ETS with offsets
  - Chinese pilot ETSs and use of CCERs (use of CDM learning; reducing compliance costs and producing co-benefits)
Means to mobilize private and public resources

Domestic Funds

- Domestic funds have been developed where ETS are applied
  - e.g. public commitments have been made by 13 countries in the EU to return part of the proceeds from the EU ETS auctions to climate and energy efficiency programmes

- A range of options are available to policy-makers for using revenues from carbon pricing scheme (ETS and carbon taxes).

- Examples on:
  - Japan’s Tax for Climate Change Mitigation (using revenues to fund low carbon energy)
  - Use of revenue recycling to support low carbon growth in South Africa
  - Alberta’s Climate Change and Emissions Management Fund
  - Examples of green bonds and PPP approaches?
Means to mobilize private and public resources

International finance sources

- On climate finance we identify two main sources of finance:
  - Public budgets and private capital
- Different instruments are used to deliver finance

On climate finance we identify two main sources of finance:

- Public budgets and private capital

Different instruments are used to deliver finance.

**Sources**

- **Budget**
  - General tax base including carbon taxes and financial transaction taxes
  - Revenues from international transport mechanisms*, fossil fuel subsidy reductions, emissions trading schemes, etc.

- **Private Capital**
  - Commercial & personal

- **Savings**
  - Pension payments
  - Insurance policies
  - Deposits

- **Stocks & Shares**

* International taxes or carbon revenues could be collected by implementing governments or a designated international entity.

**Actors**

- **State Actors** (executive & legislature)
- **National Public Institutions** (including export credit agencies, bilateral development assistance, NDBs)
- **Multilateral Development Finance Institutions**
- **Institutional Investors**
- **Private Investors**
  - Commercial (corporate/project developer & commercial banks)
  - Personal (households & philanthropy)

**Instruments**

- **Grants**
  - Contributions to climate funds
  - Technical assistance & capacity building
  - Debt swaps

- **Debt**
  - Concessional loans
  - Loans
  - Green bonds

- **Risk mitigation measures**
  - Guarantees
  - Insurance
  - Export credits

- **Equity**
  - Contributions to sovereign wealth funds
  - Equity investments

- **Carbon offsets**

Source: CPI Webinar - How to reach and move beyond $100bn in climate finance
Means to mobilize private and public resources

International finance sources

- More recently results-based finance instruments have been emerging with the ability to price on carbon or low carbon technology delivery → Results Based Finance (RBF)
- This innovative type of finance makes financial flows more results-oriented, by explicitly linking funding flows to measurable performance on the ground.
- RBF can be used in the short term before transferring emission reductions into compliance credits once there is demand.
- Examples on:
  > The World Bank Pilot Auction Facility (PAF)
  > NEFCO Norwegian Carbon Procurement Facility
  > Transformative Carbon Asset Facility (TCAF)
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Final considerations

- Credit demand has branched out from a single focus on compliance buying under international obligations to a wider range of purposes.
- The Paris framework (not just Article 6) invites a different reflection on the part of developing (and developed?) countries on the role of crediting instruments.
- Supply-side considerations will take on a much wider role, as countries engage on exercise of considering cost-effectiveness of their NDC. This includes a more complex understanding of issues such as policy interactions, additionality, co-benefits.
- RBF, both international and domestically-sourced can play a prominent role in bringing crediting.
Thank You

pedro.barata@get2c.pt
www.get2c.pt
Tel: +351 213 555 706

Av. Duque de Ávila, nº 6, 1º ESQ
1000-140 Lisboa, Portugal