vivideconomics

RBCF as a delivery model to mobilize and expand the amount of financing flowing to mitigation actions

Report prepared for World Bank Group technical dialogue on carbon markets and climate finance under the Paris Agreement

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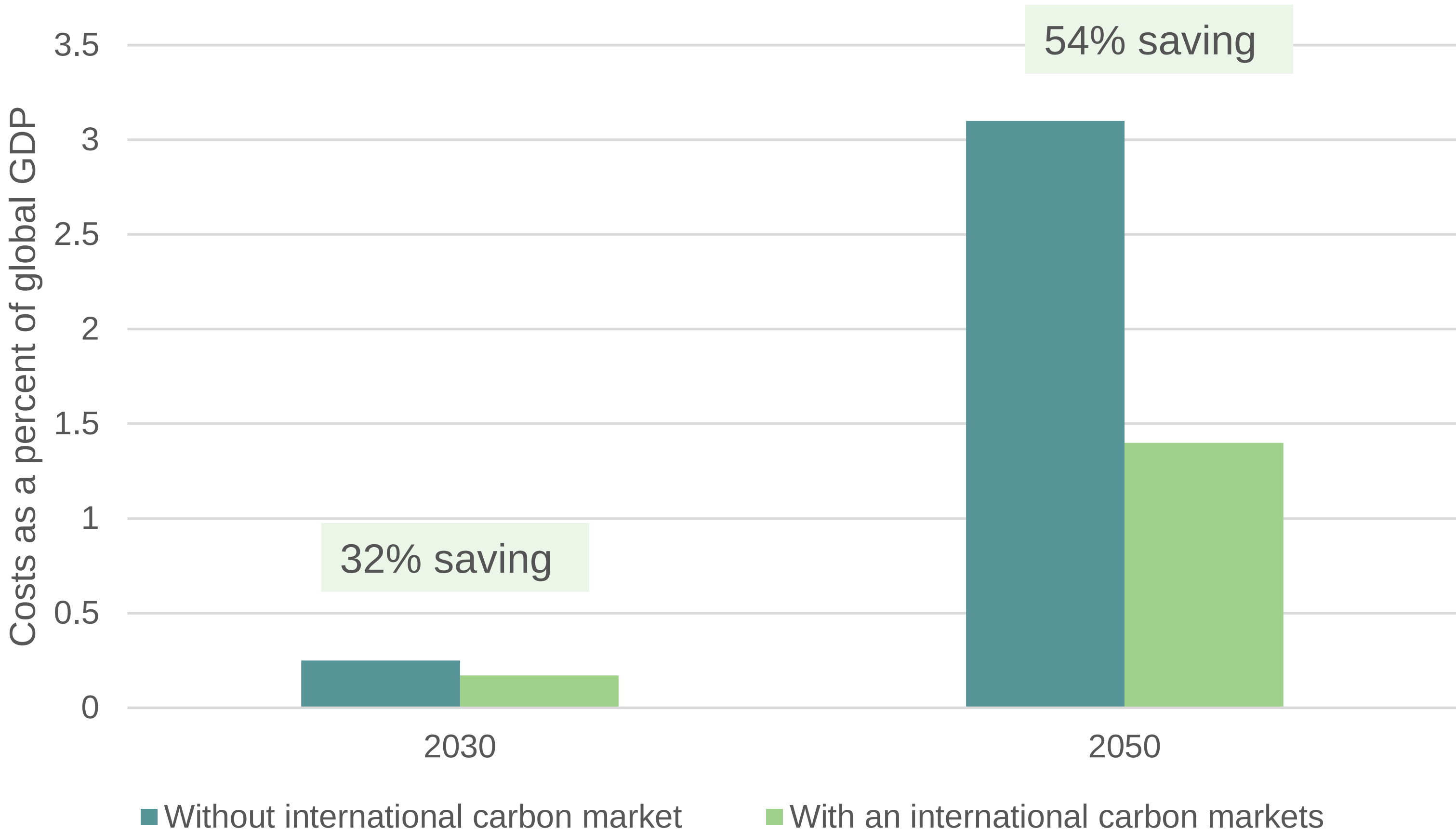
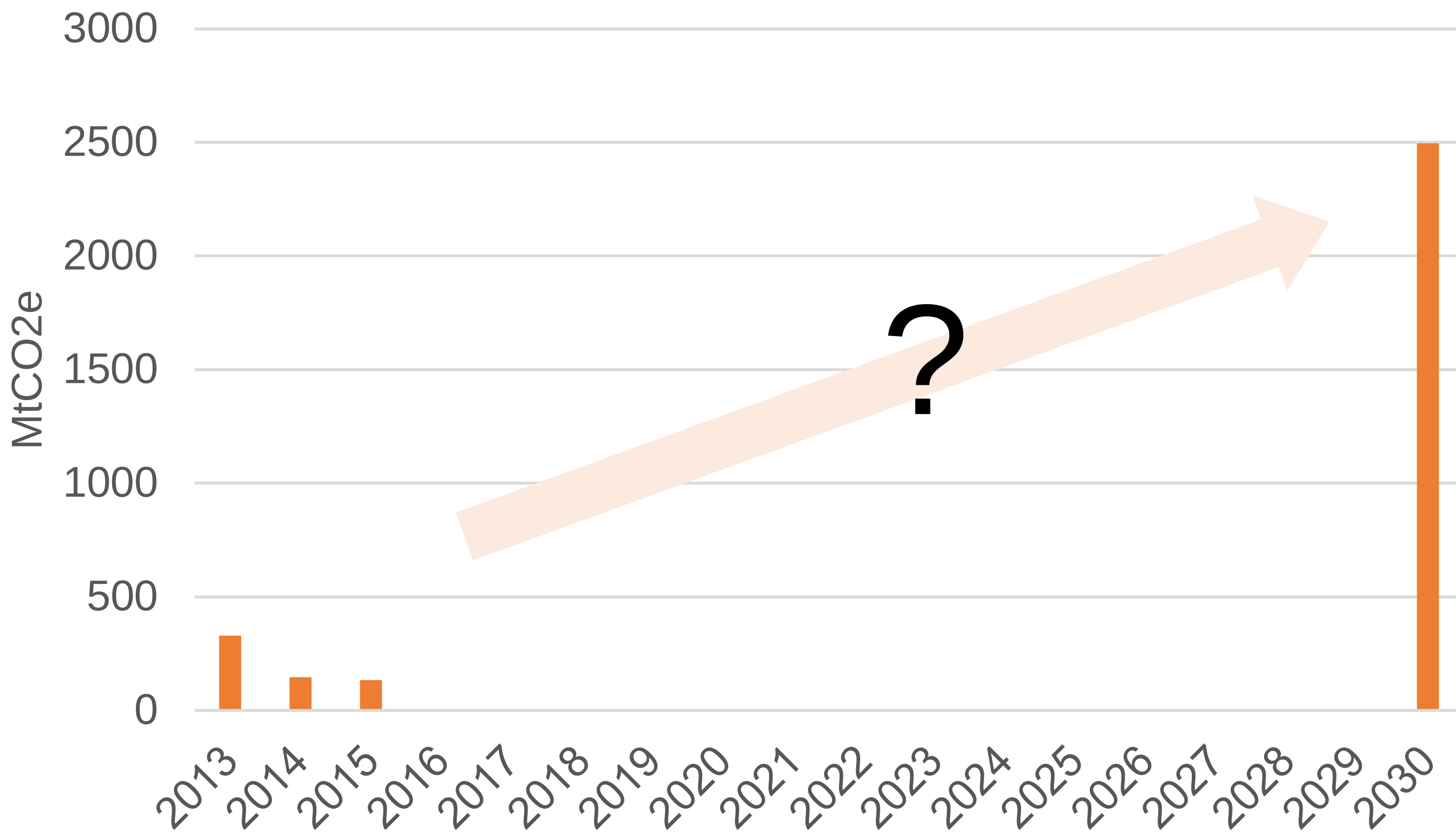
An international carbon market could deliver huge savings in the low-carbon transition

These costs savings could be used to scale up ambition



Note: 2030 abatement costs based on INDCs. 2050 abatement costs assume transition to rights to equal per capita energy CO_2 emissions consistent with staying below 2°C by 2100

But there is a need for a huge scale up in carbon market activity to deliver these benefits



There are a host of factors holding back the development of an international carbon market

Market uncertainty

Environmental integrity concerns

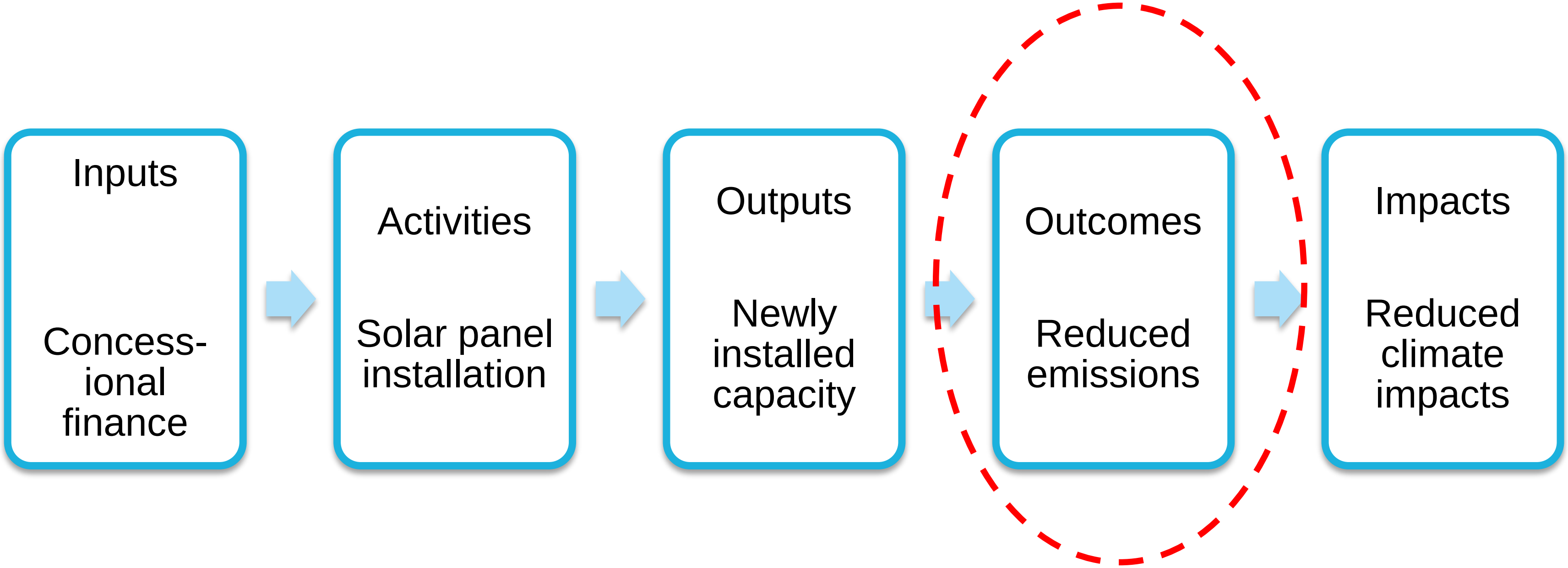
Loss of co-benefits

Absence of market rules

Asymmetric ambition

Loss of regulatory control

Results-based climate finance makes payments for climate-related outputs or outcomes



Results-based climate finance can help pave the way to an international carbon market

Benefits of RBCF

Supporting development of MRV e.g REDD+

Facilitating private sector responses to price signals e.g. Energy +

Broader learning and 'ecosystem development' e.g. China CDM → ETS

Carbon market barriers

Environmental integrity

Market uncertainty

Asymmetric ambition

Using (results-based) climate finance to generate emission reductions raises important policy questions

how should generated emission reductions be treated

— if host country NDC compliance → climate finance

— if contributor country NDC compliance → market mechanism

— if cancelled → ?

how to stop ERs intended to be used for host country NDC compliance being sold to a third party?

how to treat emission reductions simultaneously supported by RBCF and other climate finance?

RBCF is not a panacea

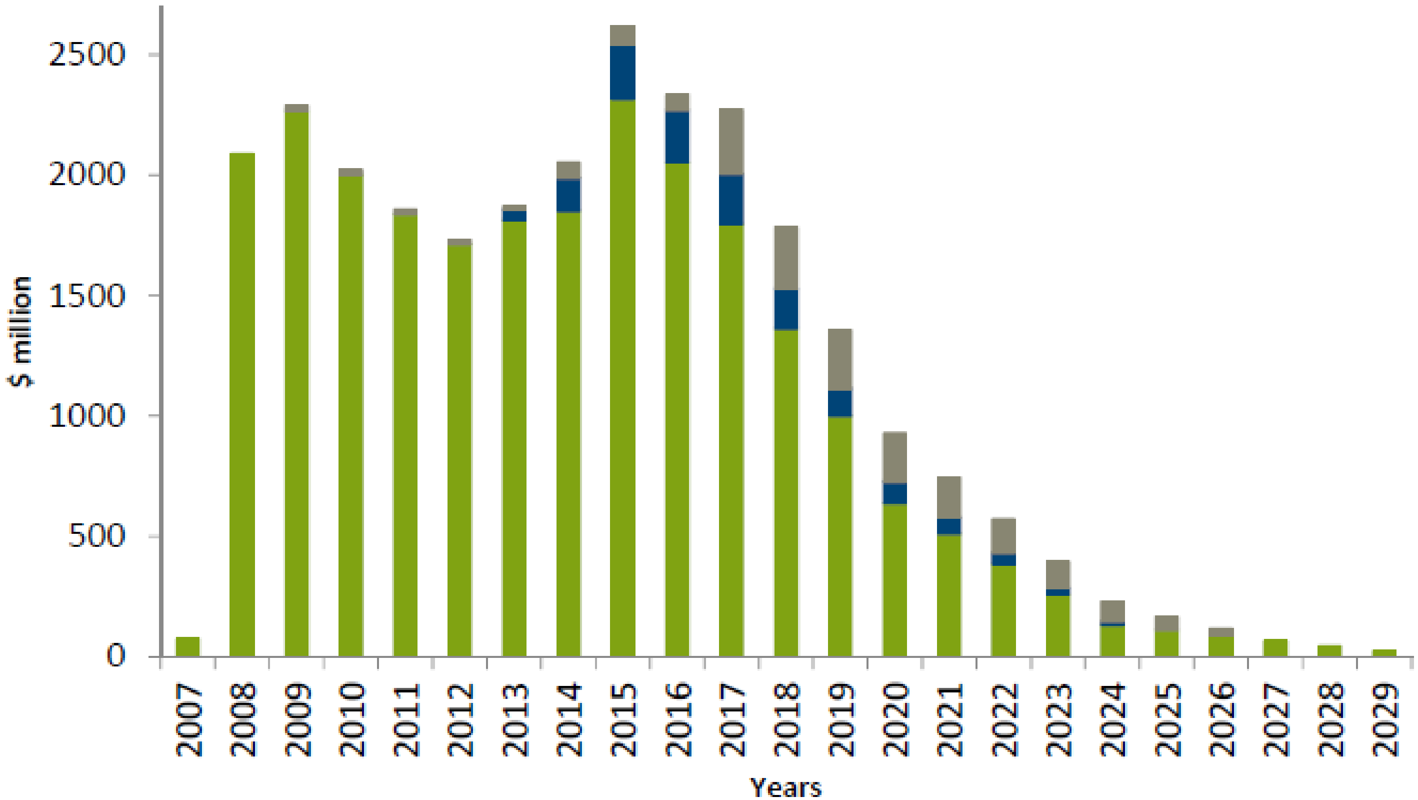
at the project/programme level, RBCF may not be effective when:

- access to finance is a challenge
  - and complexity of multiple sources of finance in context of NDC compliance?
- wide range of results are targeted
- links between activities and outcomes are uncertain or have long lags

other barriers to carbon market development will require other solutions

- loss of co-benefits requires complementary domestic policies in contributor/purchasing country
- loss of domestic market control applies specifically to ETS linking and might be overcome by collaboration or heterogeneous linking

But the case for reversing the decline in RBCF programmes seems strong



Summary

1. There is a huge gap between the current use of market mechanisms and the potential benefits they can bring. Numerous barriers hold back their rapid development.

2. RBCF, while not a panacea, can help bridge this gap by

   — enhancing MRV capacity,

   — providing a strategic, de-risked price signal that can foster competition and innovation in the delivery of emission reductions; and

   — building the broader ecosystem needed to fully exploit market mechanisms.

3. At present the use of RBCF is set to decline while the need for its use is growing