Potential to build domestic markets and capacity through scaled-up crediting and RBCF approaches
RBCF creates a focus and language investors understand.
Why is RBCF relevant for all countries?

• RBCF focuses discussions on results.
• Investors understand results and are prepared to pay for them if they are credible.
• Investors want to see credible MRV and quantifiable results.
• RBCF provides tools to respond to investors in a language they understand. It is „business like“ and not „aid“ like.
• RBCF can align the interests of the private sector with that of the public sector
Modalities/approaches for delivering finance

- **Modality**
  - Upfront finance
  - Hybrids – mix upfront finance with RBCF
  - Results Based Climate Finance (RBCF)

- **Instrument**
  - Grants
  - Loans
  - Guarantee
  - Equity
  - Credits

- **Climate Risks**
  - Political, policy, social risks
  - Outcome risks
  - Market commercial risks
  - Technical physical risks
  - Other
What do we mean by scaled up crediting?

Credits achieved across a large number of GHG sources e.g. sector

Often needs government co-ordination –to implement policy, sector or integrated programs

Baselines are established collectively for pre-defined group of GHG sources

Credits are issued or recognised based on aggregate reductions across all GHG sources

Actions that reduce GHG can be diverse and by multiple actors
<table>
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<tr>
<th>Forms of scaled up crediting</th>
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</table>
| **Sector-based programs**   | • ERs from combination of increasing energy efficiency, promoting the use of alternative fuels, and increasing the use of renewable electricity.  
• Methodology and monitoring system developed to quantify ERs |
| **Integrated programs**     | • Sustainable communities (urban) program targeting efficient buildings, reductions in consumption of electricity, gas, and water and a decrease in waste generated beyond the baseline. |
| **Policy-based programs**   | • Energy sector reforms, fiscal policy changes, energy efficiency standards  
• Support ETS implementation and ambition increase through purchasing carbon assets |
1. Terminology and context

2. Example of RBCF driven crediting supporting markets and capacity building

3. Challenges

4. Conclusion
How can RBCF driven crediting support markets & capacity?

Requires MRV

- Leverages existing verification capacity
- Can support development MRV infrastructure and capacity with TA
- Creates transparency about data needs and gaps

Examples have shown:

- 60% of programs reviewed used existing systems
- Most utilised existing verification infrastructure. E.g. Tanzania's Rural Electrification Expansion Program.
- REDD+ / Integral management of solid waste in Ecuador pairs upfront finance with RBCF to support MRV capacity building.

Limited experience to date. Need to expand MRV for other sectors need to develop different metrics & standards
How can RBCF driven crediting support markets & capacity building?

Supports existing structures /policies

- Can state capacity building as one result of RBCF and crediting
- Aligns financial incentives with sector specific policies
- Supports efficient delivery of results – Allows countries to do more for less e.g. can advance ambition

Examples

- Program for results (PforR) links RBCF to activities supporting policy implementation and capacity building.

- The Sumatra Program in Indonesia uses established institutions in Indonesia’s State Electricity Corporation (PLN) for key management functions of the RBCF program.
How can RBCF driven crediting support markets & capacity building?

**Crowds in private sector**

- Price signal established for carbon but incentives can target multiple players
- Additional income streams incentive for private sector. Able to address demand/supply barriers
- Can improve access to private finance – risk mitigation

**Examples**

- Private sector engagement was facilitated in forestry sector since business goals were aligned with development goals.
- RBCF incentives can be directly targeted at private sector.
- The Pilot Auction Facility (PAF) – reducing risks.
- RBCF can target stimulate an entire market (i.e., supply, demand, or institutions) **but more needs to be tested**
Policy crediting pilots – some early results


• Study shows that policy crediting unlikely be a critical factor for policy implementation – it can provide financial support to additional GHG abatement in sectors affected by carbon pricing reforms

• Can overcome barriers to effective policy implementation and operation
  – Supporting MRV needs
  – Increasing market liquidity

• Can maximise emission reductions within targeted sectors
  – At what scale could RBCF drive change?

• Can support emission reductions at the policy margin
  – For ETS: could purchase allowances (creating scarcity)
  – Performance benchmark from which to awared credits, under a carbon tax regime
  – Credit supporting policies (e.g. energy efficiency programs for pricing policies)
• Serve broader policy objectives and bring multiples benefits
  • Focus on result-oriented policies and actions
  • Improve monitoring, performance tracking and enforcement
  • Create readiness to access other types of climate finance

• Offer opportunity to design and pilot future mechanisms
  • Build on experience learned from implementation
  • Overcome limitations of current approaches
  • Pave way for using more comprehensive market-based instruments
1. Terminology and context

2. Examples of RBCF driven crediting supporting for markets and capacity building

3. Challenges

4. Conclusion
Challenges for RBCF driven scaled up crediting

- Generation / RBCF design
- Registry / tracking tools
- Accounting for trades & Finance

Risk
- Double Issuance
- Double Use
- Double Claiming

Control
- Mechanism design standards for verification, baselines and rules
- Accounting rules and adjustments
- Corresponding adjustments
# Accounting and reporting of finance

- **Potential PA requirements:**

<table>
<thead>
<tr>
<th>VER usage</th>
<th>Host country NDC</th>
<th>Contributor NDC</th>
<th>Net mitigation</th>
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<tbody>
<tr>
<td><strong>Nature of operation</strong></td>
<td>Climate finance</td>
<td>Market mechanism</td>
<td>Climate finance and market mechanism</td>
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<tr>
<td><strong>Accounting/reporting</strong></td>
<td>Framework for transparency of support</td>
<td>Framework for transparency of action, Art. 6 accounting</td>
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</tbody>
</table>
1. Terminology and context

2. Examples of RBCF driven crediting supporting for markets and capacity building

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4. Conclusion
Key conclusions

• RBCF can deliver scaled up crediting to:
  – facilitate **carbon pricing and market creation domestically and internationally**
  – Advance **MRV** capacity
  – support host countries’ policy processes to achieve their **NDCs**
  – leverage **private sector** activity and financing
• RBCF can play a critical role in mobilizing the resources needed to achieve the **objectives of the Paris Agreement**.
• Scaled up crediting can be the instrument to deliver RBCF.
  – Sector crediting: Programs are in place to support sectors notably forestry and some energy. More work to be done in other areas
  – Policy crediting: Early lessons are being learnt about how to utilise RBCF to address some barriers to effective policies.
  – Integrated crediting: Cities are a good example where lessons are being learnt.

**Pilots are still needed to clarify technical issues.**
## WB programs piloting RBCF /scaled up crediting

<table>
<thead>
<tr>
<th>WB initiative</th>
<th>Overview</th>
<th>Risks addressed by RBCF</th>
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<tbody>
<tr>
<td><strong>Ci-Dev</strong></td>
<td>Develop RBCF business models to support EE with some TA support</td>
<td>Improve bankability of small activities in integrated programs</td>
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<tr>
<td><strong>Pilot Auction Facility</strong></td>
<td>Sale of put options via auctions</td>
<td>Using RBCF to reduce investor risk – model to expand to sector e.g. building</td>
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<tr>
<td><strong>TCAF</strong></td>
<td>Leverage public finance through its pilot programs to create favorable conditions for private sector investment</td>
<td>Pilot policy and sector programs. New initiatives at scale</td>
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<td><strong>pmr</strong></td>
<td>Supporting countries price carbon and develop market instruments</td>
<td>Enabling environments, capacity through development of MRV, crediting and markets</td>
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</table>
Thank you for your attention

For more information see RBCF report:

Why focus on RBCF and crediting?

- **Two main pillars of international climate cooperation:**
  - Climate Finance;
  - Climate Markets.

- **In the past (Kyoto) Climate Finance and Climate Markets were ‘siloed’:**
  - Climate Finance not deployed strategically nor focused on transformational change to instead mobilize resources needed to achieve climate targets;
  - Climate (Carbon) Markets low performing on environmental integrity and stability.

- **In the future (Paris) perspective of an INTEGRATED APPROACH:**
  - Climate Finance used to support domestic policy processes and market creation and to become “subsidiary” to markets once they are established;
  - Climate markets to build on domestic policies and robust, predictable regulation to enable financial solutions to build on them.

RBCF suitable for climate mitigation which focuses on CO2eq a well defined measurable global externality – It therefore has a role in moving towards such an integrated approach beyond its current role.
How can RBCF driven crediting support markets & capacity?

Requires MRV
- Leverages existing verification capacity
- Can support development MRV infrastructure and capacity with TA
- Creates transparency about data needs and gaps

Utilises existing structures /policies
- Provides finance for risks not covered by private sector – aligns incentives with sector specific policies
- Supports efficient delivery of results e.g. advances ambition

Crowds in private sectors
- Additional income streams incentive for private sector
- Income can be used to address supply or demand barriers
- Can improve access to private finance

Requires MRV

Utilises existing structures /policies

Crowds in private sectors
Public/Private Climate Finance 2014

Total Global investment
$392 BILLION
39% Public
61% Private

Source: http://www.climatefinancelandscape.org
The financial challenge

• **US$ 13.5 trillion** required to support NDC pledges of the next 15 years in energy efficiency and low carbon technologies to implement NDCs.

• **US$16.5 trillion** investment required over next 15 years in energy efficiency and low carbon technologies to meet NDC pledges and limit global temperature to 2C

Role of public finance in mobilising private investment

Public finance continues to drive private investment and has grown steadily - up 6% from 2013 and can continue to play a key role by supporting the development of adequate legal frameworks and policies.
### Types of sectoral programs

- **Integrated approach – complementing host country policies**
  - Energetic building rehabilitation + mandatory energy efficiency standards
  - Soft loans for renewables + feed-in tariff system
  - Grants for fuel efficient vehicles + fuel efficiency standards

- **Policy-based – increasing and enabling policy ambition**
  - Energy efficiency standards
  - Feed-in tariff systems
  - Increasing ambition in domestic carbon pricing: acceleration of FFSR, carbon tax enhancement, ETS enhancement

- **Sector target-based – catalyzing ambitious target setting (country to chose implementation measures)**
  - Power sector
  - Industrial sectors, e.g., steel, cement
  - Waste sector
Integrated approach programs

- Example: Energetic building rehabilitation

- Program blueprint: Softening of loans under mandatory domestic energy efficiency standards through carbon payments

- Advantages:
  - Build innovative crediting approach on proven concept/business case
  - Strong case for environmental integrity through combination with mandatory efficiency standards
  - Possible crediting option: overachievement (above pre-agreed standard)

- Challenges:
  - Requires high level of host country implementation capacity
  - Complexity related to MRV
Policy-based programs (1/2)

- Example: Phasing-in of ETS required MRV infrastructure

- Program blueprint: Purchase of emission reductions from mandatory ETS-grade facility level MRV (type of sectoral trading approach)

- Advantages:
  - Strong rationale: facilitating ETS building
  - Straightforward operation, in principal possible in short time frame

- Challenges:
  - Limited number of potential real world cases
  - Very demanding on MRV to ensure binding nature of virtual cap in each purchase period
Policy-based programs (2/2)

- Example: ETS enhancement

- Program blueprint: Purchase of allowances from ETS with binding cap (type of sectoral trading approach)

- Advantages:
  - Strong rationale: facilitating cap tightening through external support
  - Straightforward operation, in principal possible in short time frame

- Challenges:
  - Limited number of potential real world cases
  - Very demanding on MRV to ensure binding nature of cap in each purchase period
Sector target – basis

- Example: Power sector

- Program blueprint: Crediting of achievements beyond host country power sector target

- Advantages:
  - Real world cases in preparation in some countries
  - Straightforward concept both from operational and methodological perspective

- Challenges:
  - High delivery risk without host country commitment to concrete (policy) measures
  - Depending on metric used for sector target environmental integrity demonstration can be challenging without attribution of emission reductions to concrete mitigation activities
Observations on types of programs

- Market mechanism principles suggested by European countries are compatible with broad range of sector programs

- Emerging INDC landscape requires flexibility in designing and implementing crediting/trading instruments

- Lack of real world experience and uncertainty of UNFCCC process suggests broad portfolio criteria within framework set by suggested principles

- Blueprinting exercise quickly shows large number of possible variations in each main program type

- A priori no program type dominates the others
Terminology

Climate Finance: no asset transfer for NDC compliance purposes.

Climate Market Mechanisms: transfer of assets for NDC compliance.

Results-Based Climate Financing (RBCF) – belongs to climate finance
- Modality of climate finance where finance for climate results (mitigation or adaptation) are provided upon delivery and subject to verification. Results are not used for NDC compliance of finance provider.
- RBCF can be delivered through different financial instruments e.g. grants, loans.

Crediting – can be Climate Finance or Climate Market Mechanism
- Baseline-and-crediting approach to generate verified emission reductions (VERs).
- If used by buyer for NDC compliance: climate market mechanism.
- If not used for compliance: sub-type of RBCF within climate finance.