WORLD BANK CARBON FINANCE UNIT
CARBON PARTNERSHIP FACILITY
2011 ANNUAL MEETING

PERSPECTIVES ON FUTURE PROGRAMS

Framework and criteria for program development

- **Timing – developing programs today requires a long-term perspective:**
  - Very long lead time of CDM projects;
  - Programs take even longer as they deploy stepwise over time;
  - Lead time depends on countries and project types (probably highest in LDCs)
- **Economic rationale – absolute impact and relevance of payment on delivery:**
  - Broad range for carbon return on investment (e.g. low for public infrastructure, high for CFLs);
  - Payment on delivery best for programs with high operational costs relative to investments costs (e.g. pure fuel switching or policy crediting for energy efficiency standards);
  - Programs that deploy over time can partly transform carbon revenues in upfront incentive payments (but still require seed funding against expected carbon revenues)
- **Strong trade-off regulatory risk – operational risk in current environment:**
  - Micro scale activities in LDCs: lowest regulatory risk but highest operational risk;
  - Large scale activities in most advanced countries: vice versa
- **Individual preference:**
  - Objectives (compliance assets, volume, innovation, transformation) & risk

Regulatory trends and challenges and opportunities for carbon crediting

- **Tendency towards a sort of a fast-track CDM for LDC+:**
  - De facto positive list on additionality for some project categories;
  - Standardization of CDM methodologies and procedures.

- **More and more domestic action required in advanced countries:**
  - Hardening of the policy stance on CDM additionality relative to domestic policies;
  - UNFCCC consideration of possible new market mechanism(s) includes implicitly baseline discounting in order to achieve global net ER effect.

- **Low income countries (non LDCs) and smaller middle income countries bypassed** so far by both developments (except for underdeveloped regions, micro micro scale).

- **Link carbon crediting to policies and subsidies:**
  - Still some lack of clarity for LDC+: PoA level additionality;
  - Situation outside LDC+ reflects lack of consensus on domestic action;
  - Project/program-based solutions as potential testing ground (discounted CDM baseline);
  - Crediting of policy implementation programs as a way to broaden the CDM.

A Menu of Options for the CPF

- **General CDM PoA approach - all types of CDM PoAs:**
  - Large scale activities outside LDCs: substantial regulatory risk both UNFCCC & EU;
  - Some regulatory risk mitigation potential in voluntary baseline discounting and orientation towards potential future bilateral EU contracts;
  - Lower operational risk than under pure CDM LDC+ approach;
  - Innovation potential: new large scale technologies such as CCS;
  - Transformation potential: very substantial if huge volumes can be achieved.
- **Pure CDM LDC+ approach - PoAs in LDCs and/or for micro activities:**
  - Lowest regulatory risk under UNFCCC, still EU eligibility risk outside LDCs;
  - Highest operational risk: potential mitigation through large PoA portfolio and stepwise implementation;
  - Innovation potential: crediting of policy implementation programs (e.g. energy efficiency standards) and sub-national aggregation (e.g. city-wide approach);
  - Transformation potential: can be substantial (e.g. cook stove sector in LDCs).
- **New mechanism approach - going beyond the current CDM framework:**
  - Highest regulatory risk but minimization of operational risk possible;
  - High innovation and transformation potential even with limited funds through e.g. crediting of policies (transport, energy efficiency);
  - Guiding principle: Economic rationale and regulatory development.

Thank you for your attention

Klaus Oppermann
Team Leader Policy and Methodology
Carbon Finance Unit
World Bank
koppermann@worldbank.org