WORLD BANK CARBON FINANCE UNIT
CARBON PARTNERSHIP FACILITY
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NEW MARKET MECHANISM – DESIGN CONSIDERATIONS AND PILOTING
Design features of the new market mechanism

- Global net emission reductions (instead of pure offsetting);
- Broad segments of the economy (instead of project-by-project);
- MRV and avoidance of double counting (also relating to domestic ambition targets);
NMM Design Considerations

Demand-side requirements

- Convergence with evolving UNFCCC criteria
- Confidence in environmental integrity/robustness
- Host countries to set ambitious crediting baseline below BAU and beyond project-by-project
- Possibility to use as a compliance tool for domestic targets and emission trading regimes

Supply-side requirements

- Compatible with domestic policy setting for low carbon development
- Recognizing national circumstances and priorities
- Need to set up institutional & regulatory framework (transparent and predictable regulations & implementation, sound MRV, low transaction costs)
- Prospects of off-take (demand)

New market mechanism
Host country decides on mitigation strategy for a particular sector/segment of the economy and related instruments;

Host country defines crediting baseline below BAU for a particular sector/segment of the economy taking into account potential leakage effects;

Host country sets up a MRV and registry infrastructure;

UNFCCC endorsement (MPs to be defined);

Host country sets up an implementation framework;

Host country MRV system verifies achieved ERs below crediting baseline;

Host country or UNFCCC body issues carbon credits.
Role of project entities – differences to CDM

- Initiative is with host country governments on national regulatory and implementation framework;
- Carbon assets can only be earned in aggregate and not based on the performance of individual projects;
- Strong incentives for financial transformation of carbon revenues and blending with other sources of funding within host countries;
- If implemented successfully investors can benefit from carbon revenues at lower transaction costs.
Piloting the new market mechanism - challenges

- Starting before host countries made their strategic choices and before new infrastructure/regulation is in place;
- Building on private sector and sub-national initiative while following the logic of moving away from project-by-project;
- Setting sufficient incentives while following the logic of partial crediting in a low price-high risk environment;
- Remaining representative for “broad segments of the economy” while piloting on a much smaller scale with the potential for scaling up;
- Developing the required methodological framework for accounting emissions reductions beyond project-by-project.
A basic concept of piloting

- Identify a representative aggregate – e.g. sub-sector, region/city;
- Determine BAU reference line through a simplified approach – e.g. historical trend, least cost scenario;
- Determine a crediting line below BAU: sufficiently conservative to assure consistency with emerging national ambition targets;
- Define the crediting schedule along milestones of target achievement in aggregate;
- Structure the program in line with the crediting modalities;
- Build the required MRV capacity for the program.
Generic pilot model for a new market mechanism

Define the boundary and the scale
Selected intervention should be representative of sector, technology, city, etc.

Define eligibility criteria & methodology
Enable development of new aggregate methodology approaches
Address perverse incentives

Establish the crediting baseline
Determine BAU reference line (relevant aggregation level & methodology)
Define crediting baseline below reference line (compatible & beyond national targets)

Define operational structures of the program
Crediting period & schedule
Institutional & financing structure
MRV at aggregated level
Operational requirements for piloting

- Incentive schemes that do not already require host country policy making, potentially sub-national policy programs;
- Capacity needs to be in line with scale of operations;
- Reasonable prospects for achieving a concrete transaction;
- Sound economics where carbon revenues might need to be blended with international support including ODA;
- Clear perspective for scaling-up beyond pilot level.