



SCALING UP MITIGATION THROUGH MARKET MECHANISMS: BUILDING CONFIDENCE, CAPACITY AND READINESS

*Joëlle Chassard
Manager, Carbon Finance Unit
The World Bank*

*Presentation at the IEA-IETA-EPRI 10th Annual Workshop on GHG Emission Trading
20-21 September 2010, Paris*

Table of Contents

- I. Where we come from: the World Bank's involvement in carbon finance
- II. The big picture, the success of carbon finance
- III. Current market context and challenges
- IV. Moving to the next stage
 - I. Building on experience and existing capacity
 - II. Different countries; different approaches; different timeframes
 - III. Insights from REDD + readiness
 - IV. Market readiness
- V. Conclusions

The World Bank's involvement in carbon finance: a practitioner

An early market entrant that helped drive innovation

Objectives
<ul style="list-style-type: none"> ❑ Strengthen capacity of developing countries to benefit from carbon market ❑ <i>Assist in building, sustaining & expanding carbon market</i> ❑ Ensure CF contributes to sustainable development and low carbon development

Track record
<ul style="list-style-type: none"> ❑ Pioneer: The Prototype Carbon Fund (2000) ❑ Increasing carbon fund volume over time: from \$160 million in 2000 to ~\$2.5 billion now <ul style="list-style-type: none"> ▪ 16 sovereign governments and 66 private sector participants from 3 continents ❑ Developer of – and contributor to – new methodologies ❑ Contributing to regulatory process ❑ Practitioners with global reach: 200 projects in 56 countries... ❑ Sharing experience and insights



Building on 10 years of experience














- ❑ Continue bridge building
- ❑ Ground-breaking partnership facilities & continued innovation and pioneering



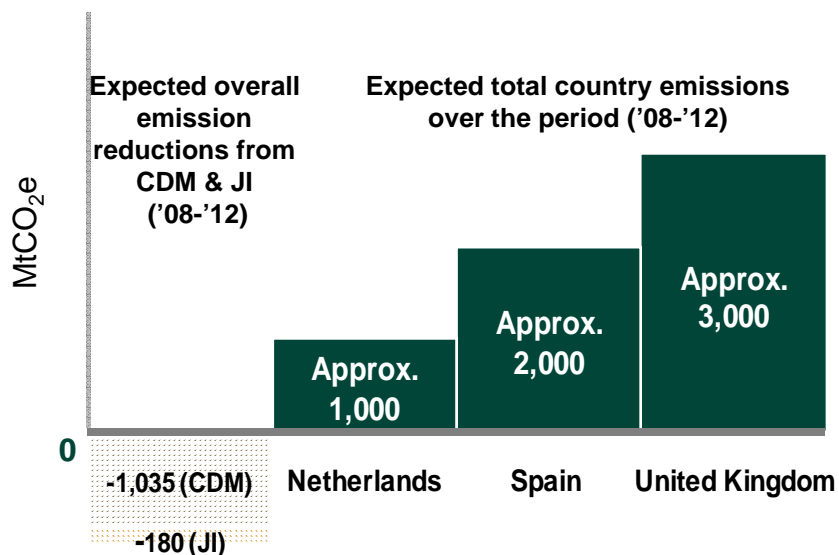
Table of Contents

- I. Where we come from: the World Bank's involvement in carbon finance
- II. The big picture, the success of carbon finance**
- III. Current market context and challenges
- IV. Moving to the next stage
 - I. Building on experience and existing capacity
 - II. Different countries; different approaches; different timeframes
 - III. Insights from REDD + readiness
 - IV. Market readiness
- V. Conclusions

The benefits of market mechanisms to combat climate change

The CDM has supported GHG mitigation and sustainable development

Contribution to meeting GHG commitments



- ❑ CDM and JI projects have mitigated GHG emissions – and will mitigate more

*Source: UNEP RISØ; **Source: UNFCCC & World Bank projections

N.B. CDM & JI transactions reached close to \$27 billion between 2002 and 2009

Significant developmental benefits

- ❑ Raised awareness about low carbon solutions
- ❑ Provided opportunities for supporting basic development needs (socio-economic co-benefits), e.g.: energy access and energy services; development of local resources; solid waste management solutions; reductions of local pollution; and employment generation
- ❑ Contributed to technology transfer and technology diffusion
- ❑ Grass roots capacity building and local empowerment
- ❑ Leveraged capital for projects in host countries

PLUS: Increased awareness + capacity development

Carbon finance on the ground: incentivizing climate action

Sparking the imagination of entrepreneurs



Transforming solid waste management

Carbon finance is providing critical incentives across the developing world to recover otherwise released methane gas. It is providing solutions for solid waste management, a problem for many developing countries with increasing urbanization rates.



Micro projects in Africa and LDCs

Carbon finance can make the difference to overcome first investment barrier and finance local energy efficiency programs (e.g., **Senegal** - Lighting Energy Efficiency in Rural Electrification; **Rwanda** - CFL Energy Efficiency Project; and **Nepal** - Biogas Program).



Construction sector

Carbon finance has been the driver for greening this sector, characterized by small plant holders (e.g., **Bangladesh** - HHK Kiln Efficiency Project).



Use of renewable energy in the iron and steel industry in Brazil

Carbon finance was critical in supporting the **Brazil** Plantar Project – consisting of 3 CDM projects covering the supply chain – in becoming the only one producing pig iron entirely from renewable plantations. It is a sustainable development model that authorities now seek to replicate in Brazil.

Table of Contents

- I. Where we come from: the World Bank's involvement in carbon finance
- II. The big picture, the success of carbon finance
- III. Current market context and challenges
- IV. Moving to the next stage
 - I. Building on experience and existing capacity
 - II. Different countries; different approaches; different timeframes
 - III. Insights from REDD + readiness
 - IV. Market readiness
- V. Conclusions

Combating climate change requires mobilizing resources at scale

Market instruments can be part of the solution

- ❑ The Copenhagen Accord calls for mobilizing \$100 billion/yr in climate finance
- ❑ Public finance is essential, but unlikely to be sufficient to cover the financing gap
- ❑ Finance for low-carbon development will also need to come from private sources
- ❑ What has been achieved through CDM are small but important steps
- ❑ Price signal through market instruments: efficient way to leverage private capital & stimulate ingenuity
- ❑ Experience and enhanced comfort with market instruments to address climate change: needs to be built upon

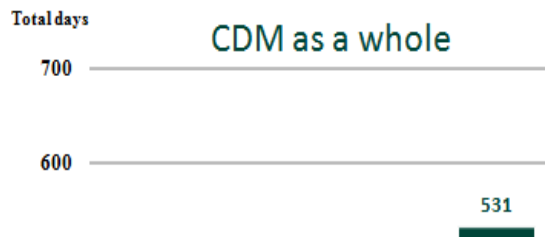
Climate finance covers additional costs and serves to..



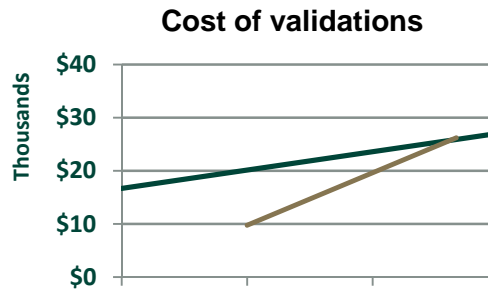
Scaling up starts with fixing today's mechanisms

Need to rebuild confidence in market mechanisms

Delays increasing for the majority



Regulatory costs increasing

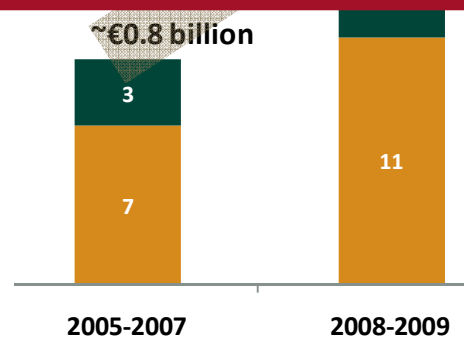
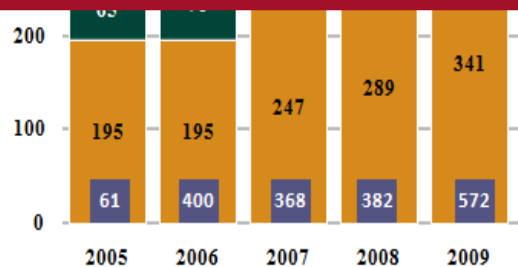


Impacts

1. Loss of revenues for project entities

- Insufficient capacity; duplications

Rising CDM transaction costs & delays are dampening carbon finance impact and eroding confidence



(avoided non-additional tons):

- tCO₂e affected at registration & issuance: small

■ Sample size ■ Validation ■ Registration — Large scale — Small scale

Table of Contents

- I. Where we come from: the World Bank's involvement in carbon finance
- II. The big picture, the success of carbon finance
- III. Current market context and challenges
- IV. Moving to the next stage**
 - I. Building on experience and existing capacity
 - II. Different countries; different approaches; different timeframes
 - III. Insights from REDD + readiness
 - IV. Market readiness
- V. Conclusions

What is needed to build on experience with market mechanisms?

Scaling up carbon finance to make it more efficient and effective in meeting the climate change and development challenges

1 Policy clarity	<ul style="list-style-type: none">❑ Clarity on the global post-2012 regime to establish demand and price signal❑ Clarity on countries' domestic use of market-based mechanisms
2 Sustained capacity building	<ul style="list-style-type: none">❑ Capacity needs to be sustained & expanded to provide enabling environment❑ Enhance engagement from developing countries in the evolution of mechanism design❑ Strong host country policies & complementary financial instruments needed to leverage carbon finance for low carbon development
3 Scaling-up	<ul style="list-style-type: none">❑ <u>CDM reform is urgently needed</u> (no need to compromise environmental integrity!)<ul style="list-style-type: none">➤ “Quantum leap” in how CDM operates: significant streamlining & simplification➤ Review of governance: trust, transparency, predictability, due process➤ Re-thinking implementation of additionality: practical, predictable, transparent➤ Perfection is the enemy of the good! Striking a better balance (conservativeness & precision)❑ Move beyond project-by-project<ul style="list-style-type: none">➤ Make sure programmatic approach can work➤ Consider new mechanisms➤ Importance of <u>market readiness</u>: capacity building, testing, piloting

For some, next step in scaling up is the programmatic approach

The World Bank's Carbon Partnership Facility is a trailblazer in using PoAs to scale-up and is a vehicle that can be a bridge to what comes next



Programmes of Activities (PoAs) have potential to scale up mitigation in developing countries

- Door is open under the CDM, but need to remove obstacles
- Still need to be implemented;
- Demand greater host country involvement



Programmatic approaches facilitate innovative application of carbon finance

- Country-wide, technology-wide
- Not limited to small unit sizes
- Combination of technologies



Pioneering methodology work, e.g.,

- City-wide approach
- Energy efficiency in buildings
- Baseline standardization



Contributing to learning-by-doing by focusing on policy context and alignment with host country priorities, starting with

- Morocco - Waste Management Program
- Vietnam - Renewable Energy Program
- Brazil - Caixa Waste Management Program
- Amman – City-wide Program
- Indonesia – Geothermal Energy Development Program

Potential bridge to new mechanisms

Readiness: Insights from “REDD +” readiness experience*



Countries embark in readiness from different starting positions, reflecting their unique conditions & history

- No cookie-cutter approach
- Facilitate cross-fertilization



Activities fit into an emerging national, low carbon development strategy

- Not simply a “forestry sector” project



Readiness is a multi-step process and takes time

- Preparation for readiness requires
 - Definition of strategic options
 - Evolution of institutional arrangements
 - Design of delivery and MRV systems
- Longer process than originally expected
- Projects, investment happen before readiness is reached



Importance of taking time to broaden engagement

- Transparent consultations with major stakeholders
- REDD+ takes time and requires changes in attitude



Implementing partners are needed

- Develop complementarities
 - Mitigate fragmentation
 - Define Minimum standards

* From the World Bank’s Forest Carbon Partnership Facility (FCPF) experience

Beyond current CDM: Partnership for Market Readiness (PMR)

A grant-based capacity building fund providing a platform for collective innovation on new market instruments

Mission

- ◆ Contribute to enhancement of global mitigation efforts post-2012 via market instruments
- ◆ Provide a platform for technical discussions, exchange & collective innovation
- ◆ Capacity building and piloting that is country-led and builds on country priorities
- ◆ Share lessons learned

Supported activities

- ◆ Supporting countries' development of readiness component for market instruments
- ◆ Exploring, piloting and testing domestic emissions trading and non-GHG trading schemes
- ◆ Exploring and testing international market instruments, e.g., reformed CDM, sectoral and NAMA crediting – as well as new instruments not yet envisioned

Participation

- ◆ Participants will include:
 - Middle-income countries
 - Countries that donate financially
- ◆ A Partnership Committee consisting of balanced representatives of both developed and developing country Participants
- ◆ The Partnership will engage private entities and relevant organizations
- ◆ The World Bank will provide secretariat and technical support

Table of Contents

- I. Where we come from: the World Bank's involvement in carbon finance
- II. The big picture, the success of carbon finance
- III. Current market context and challenges
- IV. Moving to the next stage
 - I. Building on experience and existing capacity
 - II. Different countries; different approaches; different timeframes
 - III. Insights from REDD + readiness
 - IV. Market readiness
- V. Conclusions

Conclusions

- ❑ **Climate mitigation needs to be scaled up**
- ❑ **Market instruments have demonstrated that can stimulate climate action on the ground**
- ❑ **Need to look at achievements and maintain/enhance confidence in market instruments**
 - **Policy clarity**
 - **Sustaining and enhancing capacity; build on what we have**
 - **Consolidate learning and urgently move towards CDM reform**
 - **Greater transparency and predictability. Move to standardization. Address additionality**
 - **Enhanced efficiency and effectiveness. Governance.**
 - **Scaling-up through programmatic approaches (give it a real chance);**
- ❑ **Moving to the next stage**
 - **Recognize different national circumstances**
 - **Readiness takes time**
 - **Partnership-type of approach: exchanging experiences and learning together**
 - **Support for building market infrastructure, piloting & testing**
- ❑ **World Bank proposal for Partnership for Market Readiness**
 - **Feedback welcome; hope to launch soon!**

Thank you!

Joëlle Chassard (jchassard@worldbank.org)



1818 H Street, NW
Washington, DC 20433
www.carbonfinance.org

For more information about partnering with the World Bank on its latest generation of carbon finance products, please contact:

EDUARDO DOPAZO
CARBON FINANCE UNIT
THE WORLD BANK
1818 H STREET, N.W.
WASHINGTON, DC 20433
TEL: +1-202-473-3607
EDOPAZO@WORLDBANK.ORG

SCOTT CANTOR
CARBON FINANCE UNIT
THE WORLD BANK
1818 H STREET, N.W.
WASHINGTON, DC 20433
TEL: +1-202-458-1743
SCANTOR@WORLDBANK.ORG



**Partnership
for Market
Readiness**

