Results-Based Finance for the Paris Era

Alternatives for the voluntary carbon market

Carbon Market Watch Webinar, “Carbon markets in a crystal ball: what does the future look like?”
16 December 2020

Kyoto to Paris

- **All countries** to set emission reduction targets and to move to economy-wide targets over time
- **Article 6** is to allow for **higher ambition in mitigation and adaptation actions**, and to promote sustainable development and environmental integrity

- **Industrialised (Annex I) countries** had emission reduction targets
- Flexibility mechanisms to **assist Annex I countries in complying** with their quantified emission limitation and reduction commitments
- … and to assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention

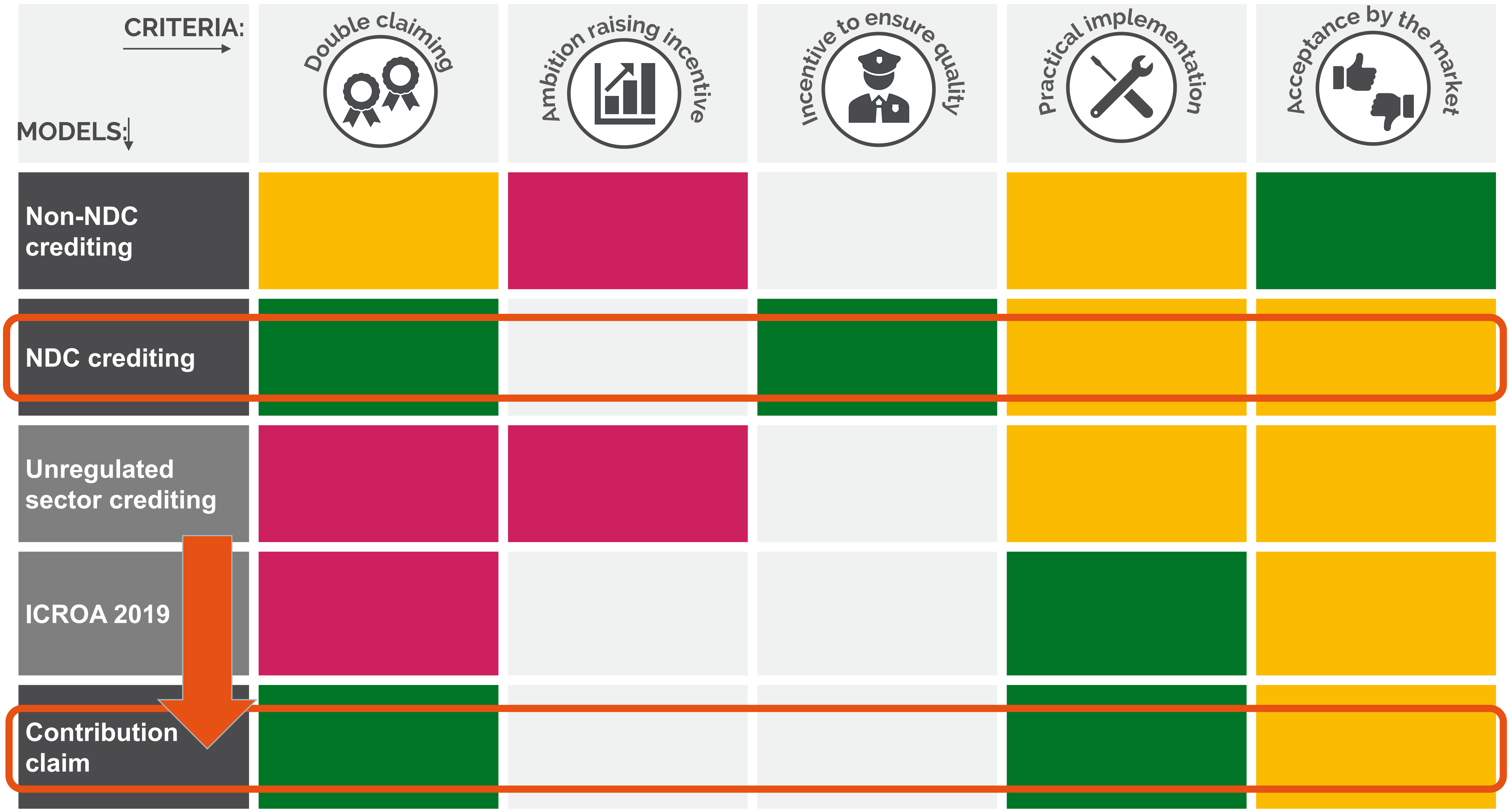
Voluntary markets to reconsider their role

Scope of activities not subject to targets decreases

- **All countries** to rapidly peak and decline to reach overall temperature goal
- **Uncapped environment** shrinks from 2021 and will continues to **shrink over time** with each NDC ratchet

Heterogenous NDC targets

- Complex to identify how national targets relate to different **types of activities** at different **points in time**
- Challenging to determine where voluntary market go beyond and can **best complement and serve to further national efforts**


CRITERIA:
MODELS:
Double claiming
Ambition raising incentive
Incentive to ensure quality
Practical implementation
Acceptance by the market
Non-NDC crediting
NDC crediting
Unregulated sector crediting
ICROA 2019
Contribution claim

The voluntary market and RBF

Contributing to climate mitigation

- Implies **support without a balancing out** of climate impacts
- Excludes **carbon / climate neutrality**
- Parallels to claims to support **sustainable development "co-benefits"**, e.g. clean water access or enhancing biodiversity

- Presents **less of a double claiming risk** as long as end customers are aware that the climate impact of their purchase decision is **not "offset"**

Results-based finance stakeholders

- Concerted effort needed to get the correct framing and mobilise stakeholders to maximise impact in terms of climate ambition

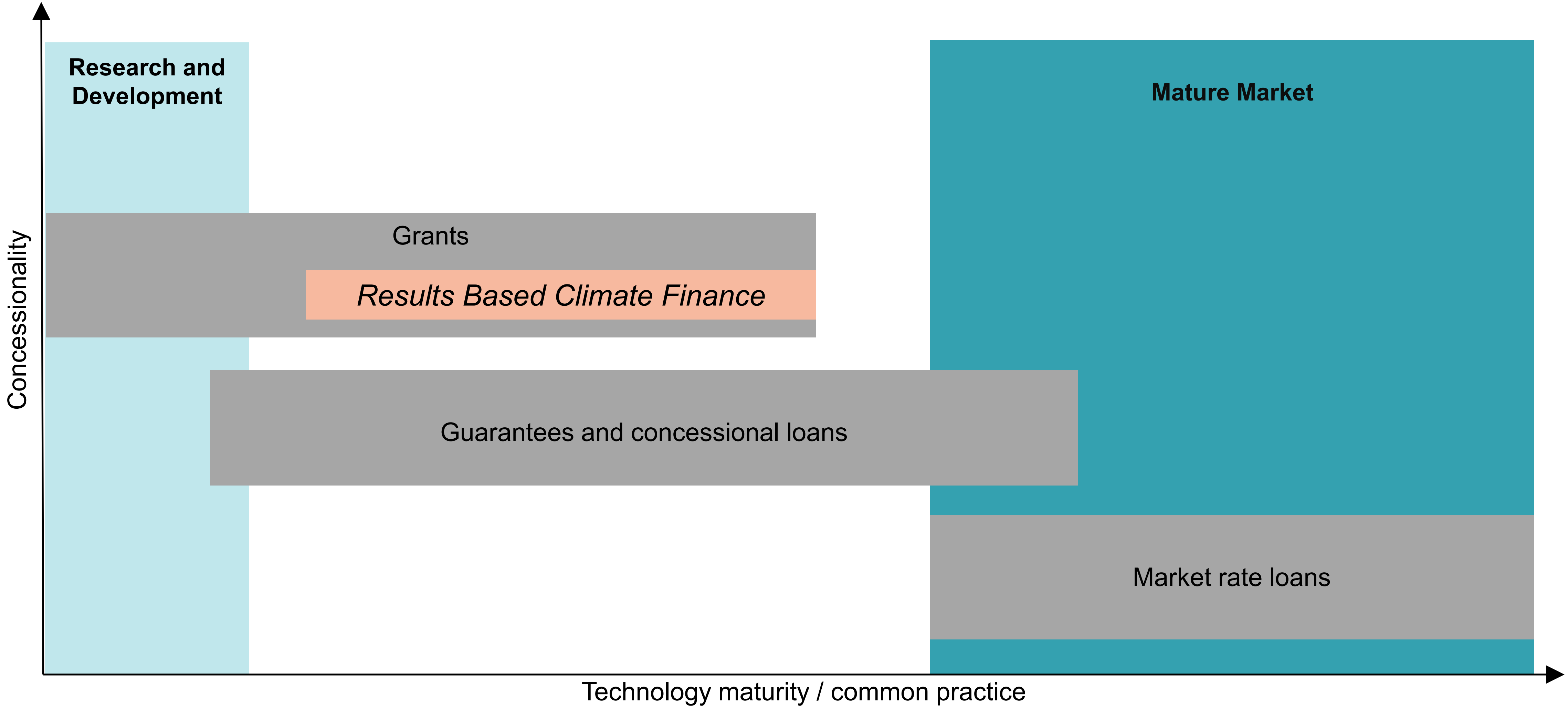
Challenges

- The CO_2e metric tends to lead to a focus on the cheapest mitigation options, not necessarily those where the host countries needs the most help to drive technological change and increase ambition
- The risk borne by project developers creates a bias towards reliable proven and reliable reductions, and against smaller developers and early stage technologies
- Degree of accuracy associated with measuring “results” can come at a high transaction cost for baseline development, MRV (depending on technology and methodology)
- Not well suited as a “development finance” source for countries with few emissions to reduce without problematic assumptions around “supressed demand” to inflate baselines – *different objective*
- Emphasis on CO_2e has a mixed track record with regard to prioritisation of sustainable development co-benefits vis-à-vis CO_2e reductions

Some possible solutions

- Emphasis on quality - especially “high hanging fruit” - over quantity including through specific countries and specific technologies that are most likely to foster technology transfer and sectoral transitions.
  - Need to educate finance providers of need for higher risk for more transformational impact
- Opportunities for streamlining and reducing transaction costs – considerations for results based finance where it is not a zero sum game?
  - Essential need for a clear separation from offsetting mechanisms
- Working with governments to integrate measures into NDC and national policies after a certain period
  - Nitric Acid Climate Action Group as an example
- Complementary enabling measures such as loan or grant schemes for preparatory measures where upfront costs present a significant barrier to project development
- Shift towards alternatives such as SDG metrics / Adaptation Benefit Mechanism

A results-based finance niche



Thank you

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