

Crediting approach, methodology and CDM transition



Questions to discuss

- How to establish crediting lines while safeguarding environmental integrity and supporting increase in ambition?
- How to set eligibility criteria and crediting periods aligned with NDCs and encouraging early action?
- How to deal with conditional NDCs and international climate finance support received?
- What needs to be done to transition activities from CDM to crediting under the Paris agreement?



Different dimensions of crediting

- Purpose
 - Market mechanisms;
 - Results-based climate financing (RBCF).
- Context
 - With host country target;
 - Without host country target.
- Program types
 - Project-by-project and programmatic;
 - Policy;
 - Sectoral;
 - Jurisdictional.





Crediting lines



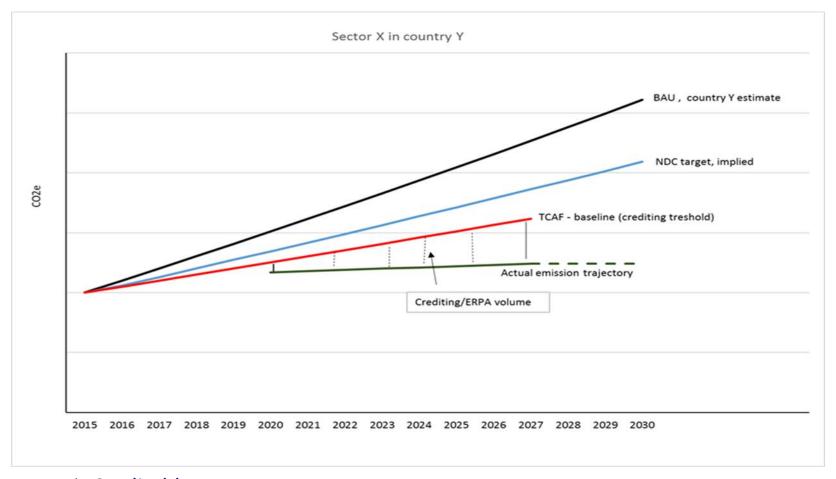
Crediting lines and NDC targets

- Target-based crediting
 - Derive crediting line from NDC target (or quasi-target);
 - Sectoral and jurisdictional crediting, policy crediting.
- Crediting conditional to target achievement
 - Use program-specific crediting line and condition crediting to NDC target achievement;
 - Project-by-project/programmatic, policy crediting.
- Crediting without target consideration
 - Use program specific crediting line;
 - All program types;
 - Only for RBCF unconditional to target achievement.



Target-based crediting

Baseline = Min (target emission trajectory, BAU emission trajectory)



→ Creditable ERs



Practical challenges: the two extremes

- Congruence crediting program NDC target
 - Directly apply target-based crediting, straightforward but rather exceptional case.
 - Example: NDC target trajectory for share of renewable power generation – sectoral RE crediting program.
- Crediting of activities outside NDC target
 - Define a congruent crediting threshold (quasi-target).
 - Example: Transport is not covered by NDC target.
 Threshold trajectory for electric vehicles sectoral electro mobility crediting program.



Practical challenges: the difficult middle

Consider the case of a sectoral crediting program and:

- Inside target different boundary
 - Example: Economy-wide target.
 - Sectoral breakdown.
- Inside target no target trajectory
 - Example: Sectoral point target.
 - Intertemporal breakdown.
- Inside target different metric
 - Example: Relative sector target.
 - Determination of BAU.



Crediting lines and environmental integrity

- Target-based crediting
 - EI through ambition of target (below BAU, <u>own</u> effort*);
 - Role of carbon revenues irrelevant for El.

*own effort logic: discount for international support received (see below on attribution)

- Crediting conditional to target achievement
 - As for target-based crediting but higher uncertainty;
 - Consider additional criteria: quasi-targets, benchmarks.
- Crediting without target consideration (similar to CDM)
 - Role of carbon (financial contribution/removing barriers);
 - Use benchmarks and/or market penetration thresholds.



Crediting lines and increasing ambition

- Target-based crediting
 - Direct increase in ambition: place crediting line below target line;
 - Indirect increase: ratchet up target in next NDC period.
- Crediting conditional to target achievement
 - Use ambitious quasi-targets/benchmarks;
 - Ratchet-up target in next NDC period.
- Crediting without target consideration (similar to CDM)
 - Ambitious benchmarks and/or market penetration thresholds substantially beyond BAU





Eligibility criteria & crediting periods



Eligibility criteria and crediting periods...

For target-based crediting and crediting conditional to target achievement:

Crediting periods:

- Earliest start date of crediting period: start of NDC implementation (= first NDC submission date if not defined otherwise in NDC);
- Latest end date of crediting period: end of NDC target period.
- Duration of credited mitigation activities:
 - No restriction on start date (can have started any time before NDC submission);
 - No restriction on end date (can continue beyond crediting period).



...continued

Example:

- NDC submitted in 2016, single-year 2025 target;
- Feed-in tariff introduced in 2012, tax exemption in 2010;
- Sectoral renewables crediting program.



- Maximal crediting period: 2016-2025;
- Crediting of emission reductions beyond target.

Crediting without target consideration:

CDM additionality logic applies: previous consideration?

Criteria to define crediting periods:

- Needs of the program;
- NDC strategy: e.g., limited to 2023 in case of planned NDC ratchet up.





Conditional targets and international Climate finance support



Potential limitations for sellers and buyers

Sellers:

- Conditional NDC targets: might want to keep emission reductions between conditional and unconditional target;
- Problem: conditional target might not be (fully) achieved as depending on international support.

Buyers:

Might not want to purchase ERs already enabled through international climate finance.

Possible solution: ATTRIBUTION

 Determine share of ERs attributable to international climate finance and exempt it from crediting.



Attribution - example

- Sectoral mitigation program supported by:
 - International climate finance: \$50m grant conditional to overachieve unconditional sectoral target;
 - Maximum carbon purchase value of \$50m.
- Program reduces 20mt ER relative to unconditional target.
- Attribution:
 - Sell 10mt at minimum price of \$5/t
 - Keep 10mt and account against conditional target.



Attribution further aspects of interest

- Delivers a minimum price: selling below means subsidizing transaction (loss (in economic efficiency)).
- Is a safeguard against "overselling".
- Applies as well if there is only an unconditional target.
- Can be expanded to domestic subsidies if any to:
 - Avoid indirect subsidization of mitigation in buyer countries;
 - Avoid indirect subsidization of domestic private entities.



Attribution – some complexity

- Boundary financial support vs. boundary crediting program;
- Proportioning of climate finance to ERs beyond unconditional target;
- Determination of <u>grant equivalent</u> of climate finance (e.g., concessional loans).



More detailed operational guidance from WB piloting forthcoming.









CDM transition options

- Domestic purposes
 - Domestic offsets for e.g. domestic ETS or carbon tax;
 - Domestic results-based climate finance (RBCF);
 - Only for "vulnerable projects" additional ERs.
- International RBCF
 - Potentially some limited demand for "vulnerable projects" under conditionality.
- New international mechanisms (Article 6, CORSIA)
 - At this time still unclear.



Elements for a no-regret strategy

- Consider domestic crediting framework and governance;
- Identify "vulnerable projects" as a separate asset class;
- Consider a "crediting conditional to target achievement approach";
- Consider aggregation of projects to sectoral or jurisdictional programs and transition to target-based crediting.







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