



# Carbon finance: World Bank regional outlook LAC

#### November 9, 2020 Klaus Oppermann, Sandra Greiner



## **Carbon Finance post-2020 opportunities**

#### New opportunities:

- Higher ambition larger scale;
- Beyond individual projects;
- Contribution to domestic decarbonization strategies.

#### New challenges:

- Avoiding perverse incentives on target setting;
- Avoiding overselling and regret and achieving domestic NDC;
- Lack of experience with scaled-up crediting.



#### Need for Domestic Crediting Strategies and Frameworks

What to sell? – different options

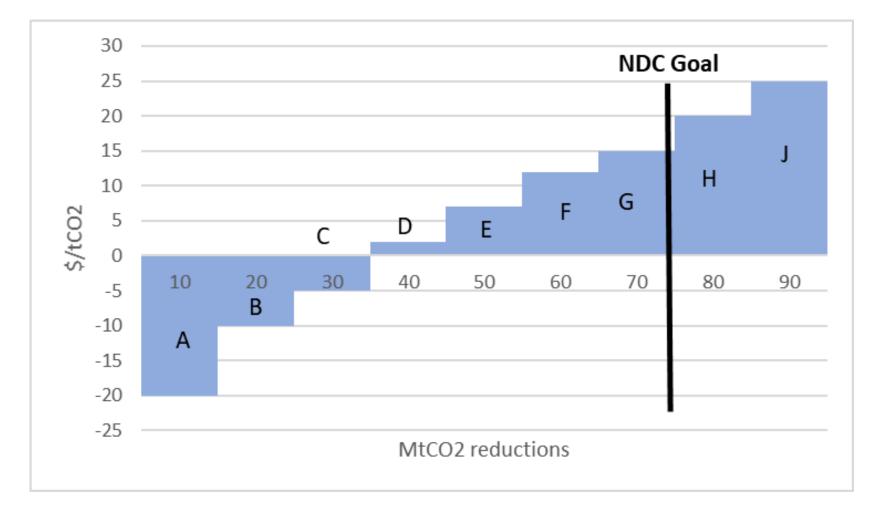
- Earmarking: positive negative lists;
- Reflecting (NDC) targets in baselines;
- Exported emissions have to be compensated elsewhere.

#### How to sell?

• Get pricing right: incremental cost vs opportunity cost.



#### Incremental cost vs. opportunity cost What to sell and how to sell?





## Piloting post-2020 Crediting at the World Bank

Several Funds are currently piloting post-2020 crediting including **Ci-Dev** and **TCAF**.

#### The Transformative Carbon Asset Facility (TCAF)

- Targets large volumes (1 Mio tons per year+)
- Focusses on policy, sectoral, jurisdictional crediting
- Uses hybrids of RBCF and carbon finance
- Part or ERs are transferred part stay in host country for NDC achievement



#### Example: Policy Crediting Carbon Tax

#### A carbon tax is a Price-Based Mitigation Policy (PBMP)

• A tax on fossil fuels (i.e. coal, oil, gas) levied in proportion to the carbon content of each fuel

How crediting could be applied:

- The responsiveness of the sector to a carbon tax needs to be modelled and emission reductions estimated
- Results of policies are more difficult to monitor than that of single projects, therefore a robust theory of change is needed for the MRV
- Results-based payments based on agreed monitored parameters and modelling of impacts



## **Example: Sectoral Crediting** Energy efficient housing market share

Examples of energy efficiency policy measures in buildings:

- Financial grants and subsidies
- Regulatory policies, i.e. energy performance standards,
- Informative programs, i.e. energy efficiency certificates for buildings, energy labeling for appliances

#### How crediting could be applied:

- One of the lowest cost opportunities but often facing inertia, structural challenges or resistance;
- Crediting can be used to overcome barriers;
- MRV can be based on CDM/JI methodologies and adapted to the sector



## Example: Jurisdictional Crediting Urban carbon crediting

Varied opportunities to achieve ER in cities within each sector:

- **Buildings**: energy efficiency standards and norms, incentives to switch to renewable energy, etc.
- Waste management: organic waste treatment at household or citylevel, waste to energy, etc.
- Land use planning: change in land use planning to reduce sprawl, encouraging densification, etc.

#### How crediting could be applied:

- Crediting based on the city's inventory
- Mitigation calculation dependent on measuring (and modeling) changes in inventory emissions;
- Risk of double counting with project-level emissions reductions. Those have to be deducted.



## Mitigation policy examples in the LAC region

Policy	Year	Country
National Biofuels Policy Aims to reduce greenhouse gas emissions, improve the life cycle energy efficiency of biofuels and creates the framework for establishing decarbonization credits.	2017	Brazil
Carbon tax to promote vehicle energy efficiency The tax reform dictates carbon taxation of new car purchases based on Nitrogen oxide (NOx) and Field Electron (FE) emissions.	2014	Chile
<u>Vehicle energy efficiency labeling program</u> A program of standardization and labeling of energy efficiency, establishing the obligation of vehicle marketers to inform on fuel consumption and CO2	2016	Argentina
Tax exemptions for renewable energy Companies investing in a list of sectors (e.g.) clean technologies) are exempted from certain taxes	2012	Uruguay
Support for Non-Conventional Renewable Energy Development Programme Subsidizing pilot projects based NCRE	2012	Chile



Source: IEA Policies and Measures Database

## **TCAF Host Country Engagement Framework**

The World Bank and Climate Focus are jointly working on implementing **TCAF's host country engagement framework.** 

- Aim of the host country engagement:
  - Assess challenges and opportunities for implementing large-scale mitigation
    programs and policies in host countries
  - Build host countries' capacity for the implementation of crediting programs
  - Carry out knowledge sharing workshops and deep dive sessions
  - Building on these workshops, develop capacity building plans for host country governments that seek TCAF support

## TCAF is currently seeking to support interested host countries with tailored workshops and engagement









## Thank you

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