



### Post 2020 climate – carbon finance opportunities

### Transformative Carbon Asset Facility



November 12, 2020 Global DNA Forum

### **TCAF** funding and programs

Total facility capitalization

TCAF became operational in March 2017, with \$215 million in contributions

Contributors



Hybrid funding

**Climate finance**: support NDC implementation, ERs remain in the host country, **Carbon market funding:** ER will be transferred out of host country, payment requires Corresponding Adjustment (CA)

Programs to support

Large scale sectoral, jurisdictional, or policy-based crediting program

\$30-50 million in results-based payments against Emission Reductions(ERs)



#### **Overview**

### TCAF crediting parameters

- Transformative change;
- Baseline setting and crediting period;
- Additionality, Attribution, and MRV.

### **UNFCCC** requirements

- Corresponding Adjustments;
- Reporting.

### Domestic crediting framework



## TCAF crediting parameters



### **Transformative change**

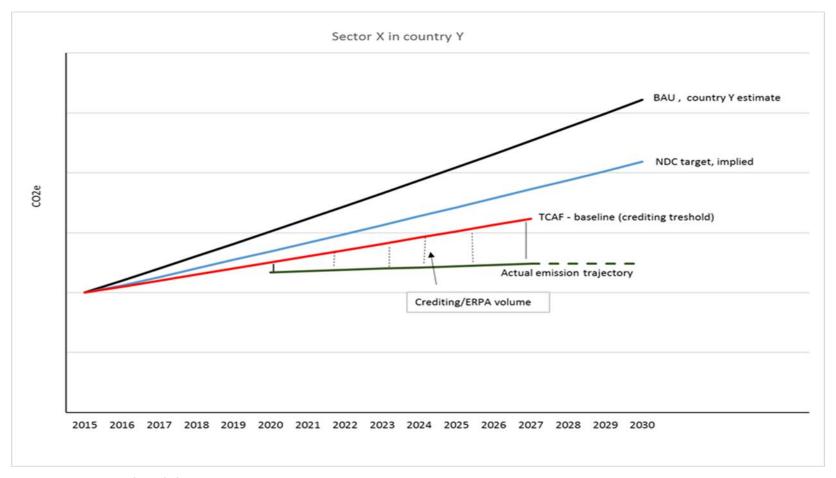
Program selection criteria and part of MRV;

- Each program must fulfill each of 4 criteria:
  - Sizeable mitigation, i.e., about 1mt p.a.+;
  - Sustainability after TCAF exit;
  - Positive effect on NDC ambition;
  - Contribution to carbon pricing.



### **Baseline setting**

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



→ Creditable ERs



### **Crediting Period**

- Earliest start is start date of NDC implementation.
- Latest end is end date of NDC period.

- No limitations on mitigation activity start date:
  - Enables crediting of historic measures/policies...
  - ...provided target overachievement/CA.

- TCAF purchase period is:
  - Program specific and typically 5-7 years...
  - ...within crediting period.



### **Additionality**

- Crediting line below BAU and NDC target;
- Aggregate mitigation beyond individual project level.

 Exemption of mitigation enabled by other international support and respective conditional NDC targets → Attribution.



#### **Attribution**

 Mapping of all international concessional climate finance supporting the program;

Normalization of all support (including ERPA) to grant equivalents;

 Determination of share of ERPA grant equivalent in total grant equivalent.



### **Attribution Example**

	face value	grant equivalent				
	m\$	m\$	%			
IFI loan	200	30	37.5			
IFI grant	10	10	12.5			
ERPA	50	40	50			
Total	260	80	100			



#### **MRV**

- Triple MRV requirement: emission reductions, transformational change, sustainable development.
- Program specific MRV methodologies.
- Modelling approaches to MRV for policy-based crediting.
- Alignment with host countries' national MRV systems.
- Verification by an independent third party.



# **UNFCCC** requirements



### **Corresponding Adjustments**

Avoidance of double counting through principle of double bookkeeping:

 Seller to add internationally transferred mitigation outcomes to its emission balance;

 Buyer to deduct ITMOs from its emission balance.



### **Complexity of CA**

Periodization of ITMOs;

Different NDC target periods;

Different NDC metrics and NDC coverages.

Most common case: 2030 single year target, CO2 metric, NDC coverage.



### Trajectory approach example

2020	2021	••••	2029	2030
100%	99%		91%	90%

	2021	2022	2023	2024	2025	2026	•••	2030	Total
ERPA	300	450	750	600	900	1,000			4,000
Annual CA	300	450	750	600	900	1,000			4,000



## **Averaging example**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
ERPA	300	450	750	600	900	1,000					4,000
Indicative CA	300	375	500	525	750	667	571	500	444	400	400
CA										400	400
Simple average	30	45	75	60	90	100				400	400



### Reporting and tracking requirements

- Initial report: method selected;
- Annual reporting to UNFCCC Article 6 database;
- Biennial Transparency Reports;
- Registry or UNFCCC default registry.

UNFCCC final stock take in 2033.



# Domestic crediting framework



### **Need for Domestic crediting framework**

#### What to sell? – different options:

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

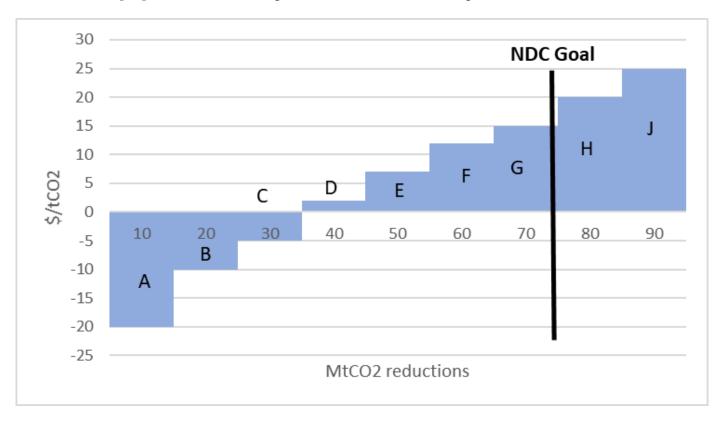
#### How to sell?

Get pricing right: incremental cost vs opportunity cost.



### **Opportunity costs**

ITMOs cost more than VERs and correct pricing requires opportunity cost analysis:





### **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







koppermann@worldbank.org