The World Bank Submission on the Framework for Various Approaches

The World Bank welcomes the opportunity to make a submission to the Subsidiary Body for Scientific and Technological Advice (SBSTA) call for inputs on a framework for various approaches (FVA), made at the 18th session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) (FCCC/CP/2012/L.14/Rev.1, paragraph 48).

The World Bank understands that key differences between the FVA and the new market-based mechanism (NMM) lie with different governance structures envisioned by different Parties, with the FVA envisioned as a model, encompassing nationally-governed mechanisms. The NMM, meanwhile, is intended as a mechanism under the guidance and authority of the COP. Nonetheless, it considers that given the commonality of the main principles and technical elements for both the FVA and the NMM (in particular in stimulating mitigation actions and “ensuring a net decrease and/or avoidance of global greenhouse gas (GHG) emissions”), there are similar key areas that could drive the development of their criteria and procedures to become attractive tools for international cooperative mitigation actions at scale and with a high level of environmental integrity. Therefore, the World Bank is providing an identical submission to the SBSTA call for inputs on the modalities and procedures for the NMM made at the 18th session of the COP to the UNFCCC (FCCC/CP/2012/L.14/Rev.1, paragraph 52). The World Bank would be pleased to elaborate further and contribute to this important work as needed.

The submission starts with the summary of the main recommendations, followed by a detailed description of the underlying elements for these recommendations. To facilitate reading, both FVA and NMM are referred below as “new mechanisms”.

Summary of the main recommendations

1. *Prompt start mitigation actions under the new mechanisms should be stimulated by providing a prospect (though not certainty) for the resulting emission reductions to be internationally recognized and used for compliance purposes. A common prompt start phase would allow experience to be gained early on and to ensure that domestic and international institutional capacity is maintained and further improved, in particular in terms of accounting, registry, tracking, and verification systems.*
2. *The overarching principles of environmental integrity, achieving a net decrease and/or avoidance of GHG emissions, transparency and information sharing should be clarified through the relevant internationally approved rules and provisions to guide the prompt start actions. It should, in particular, be ensured that baselines (reference levels) and crediting thresholds and/or trading caps are conservative and no emission reductions can be earned for decreases in activity levels.*
3. *The prompt start phase should be inclusive in terms of participation requirements (e.g., countries with or without caps of national GHG emissions, at different levels of readiness in terms of GHG*

accounting and tracking systems). Eligible activities should cover broad segments of the economy while accommodating for mitigation actions at different scales and scopes, - starting with incentive schemes at the sub-sectoral, city-level, sub-national and national levels to domestic emission trading schemes and economy-wide instruments such as carbon tax or reform of fuel pricing, - to effectively complement and support domestic efforts.

4. *Future criteria and procedures for the new mechanisms should support a combined use of financing sources to increase efficiency and help raise the ambition through an optimized leverage of domestic and international, public and private finance.*

Elements underlining the main recommendations

Overview

5. In the absence of clarity of the future architecture of the post-2020 agreement, a growing number of domestic initiatives are already shaping the landscape where developed and developing countries are undertaking efforts to design and implement market and non-market based instruments of climate policy. This reflects domestic objectives and priorities, and takes into account their particular circumstances (such as the socio-economic context, structure of economy and major emitting sectors, institutional capacity). These initiatives are seeking to introduce a domestic and/or international carbon price signal through a variety of instruments starting incentive schemes at the sub-sectoral, city-level, sub-national or national levels to domestic emission trading schemes and economy-wide instruments such as carbon tax or reform of fuel pricing.
6. Country participation in the new mechanisms could serve two broad purposes: first, to enhance the set of available tools in order to minimize the overall costs of mitigation (e.g., through better access to international climate and carbon finance); second, to increase the credibility and transparency of cooperative mitigation actions by adhering to international standards, in particular as a way to crowd in private financial flows.
7. The evolving landscape of domestic and regional initiatives, as well as past experience with sub-national, national, and international market-based instruments/mechanisms over the last decades, should be taken into account in developing the criteria, procedures and standards for the new mechanisms. A variety of international cooperative mitigation actions, including international climate finance, should be encouraged to incentivize and support early and ambitious efforts within a longer term perspective.
8. Ensuring environmental integrity of a variety of international cooperative mitigation actions should steer the oversight by the UNFCCC. This could be done, for example, through setting clear internationally approved guiding principles, while allocating the responsibility for design and implementation to the national level.
9. The development of the criteria and procedures of the new mechanisms should aim to support coherence between different approaches, to the extent of possible, while ensuring flexibility and incentivizing prompt start actions.
10. Given that the new mechanisms to be developed within an uncertain architecture of the future global agreement, a common prompt start phase will allow experience to be gained early on and to

ensure that currently available institutional capacity can be maintained and further improved, in particular in terms of accounting, registry, tracking, and verification systems.

Focus areas for the development of criteria, procedures and standards for the new mechanisms

11. This submission addresses four key areas that could drive the development of criteria and procedures for the new mechanisms, and help them become attractive tools for international cooperative mitigation actions, achieving a high level of environmental integrity and net emission reductions at scale:

    I. Stimulate early actions through a common prompt start phase, driven by international overarching principles and with the prospect of the future use of emission reductions for compliance purposes;

    II. Establish internationally approved rules and provisions for prompt start actions, clarifying the overarching principles of environmental integrity, achieving net emission reductions, transparency and information sharing;

    III. Accommodate for the prompt start mitigation actions at different scales and scopes under the new mechanisms to effectively complement and support domestic efforts in both developed and developing countries;

    IV. Facilitate a combined use of financing sources to increase efficiency and help raise the ambition through an optimized leverage of domestic and international, public and private finance.

I. Stimulate early actions through a common prompt start phase driven by international overarching principles and with the prospect of the future use of emission reductions for compliance purposes

12. Establishing a common prompt start phase for the new mechanisms could be fast and practical way to provide minimum clarity to the Parties considering using international cooperative mitigation actions to complement their domestic efforts in achieving mitigation targets and pledges.

13. The prompt start phase should provide a prospect (though not certainty) for the resulting emission reduction units to be internationally recognized and used for compliance purposes. It should also establish a process related to collecting and assessing the practical experience gained from the prompt start activities. This should be used as a key milestone for the development of criteria, procedures and standards for the new mechanisms. A prompt start phase would allow experience to be gained early on and to ensure that domestic and international institutional capacity is maintained and further improved, in particular in terms of accounting, registry, tracking, and verification systems.

14. The prompt start phase should be inclusive in terms of participation requirements (e.g., countries with or without national GHG emissions caps, at different levels of readiness in terms of GHG accounting and tracking systems). It should cover broad segments of the economy while accommodating for new approaches for mitigation actions at different scales and scopes. This would effectively complement and support domestic efforts, starting with incentive schemes at the sub-

sectoral, city-level, sub-national and national levels to domestic emission trading schemes and economy-wide instruments such as carbon tax or reform of fuel pricing. The prompt start phase should also recognize a variety of possible uses of emission reductions, including but not limited to the use for compliance against a pledge or target in another country.

15. The prompt start phase should allow participants with sufficient flexibility to encourage the design and development of mitigation actions that are practical, implementable and sufficiently rigorous.

II. Establish internationally approved rules and provisions for prompt start actions, clarifying the overarching principles of environmental integrity, achieving net emission reductions, transparency and information sharing

16. The prompt start activities shall be guided by a set of internationally approved rules and provisions that clarify the key overarching principles of environmental integrity, achieving net emission reductions, transparency and common rules for information sharing on the practical experience gained or technical difficulties encountered under this phase.

17. The prompt start phase rules and provisions could also contain an evolving set of non-mandatory standards, including for implementation by host Parties, that would reflect the emerging best practices under the prompt start phase, as identified through an independent assessment process. Such non-mandatory standards may include, but are not limited to, further improvement of the rules and procedures for the prompt start activities, as well as the technical elements relating to robust accounting, registry, tracking, and verification systems.

18. The non-mandatory standards could be applied and tested on a voluntary basis, to inform the future definition of the participation requirements in the new mechanisms, the definition of the governance structure (taking into account emerging domestic institutional models), as well as the scope for future harmonization of different approaches.

19. The baseline (reference level) setting is critical to ensure the environmental integrity of mitigation actions. In the absence of international guidelines for baseline setting, various approaches and modeling techniques can be used (as appropriate) for the selected scope of action. The rules and provisions should ensure that baselines are set in a conservative and transparent manner, with regard to the following features:

    a. Defining the boundary and types of emissions covered and treatment of leakage;

    b. The choice of the baseline setting approach, including the level of aggregation (e.g., ensuring that cross-effects are properly taken into account) depending on the type of measures and policy actions.

    c. The methods used to select key data sets and make assumptions relating to activity levels and key emission drivers, relative to the targeted segment(s) of the economy;

    d. The approaches taken to account for policy and regulatory conditions and circumstances, as well as to define the starting year and the timeframe; and

    e. The mechanism for periodic baseline updating, including adjustment to unforeseen changes in macroeconomic conditions (i.e., to ensure that emission reductions cannot be earned for decreases in activity levels).

20. The crediting threshold/trading cap should be set below the baseline (reference level) such as to demonstrate in a transparent way the level of ambition and to ensure that net emission reductions will be achieved as a result of the prompt start actions. Different national circumstances and technical solutions can be envisaged to define stringent crediting thresholds/trading caps, and an acceptable level of stringency should be defined by the Parties involved.

21. The rules and provisions relating to the conservative baseline setting for broad segments of the economy, are further strengthened by the principle of achieving net emission reductions (through crediting thresholds and/or trading caps), and therefore should be considered as demonstrating additionality in an appropriate and sufficient way.

22. Monitoring, reporting and verification (MRV) approaches should be established in an appropriate manner to ensure that impacts of the implemented measures and policy actions can be accounted for with transparency and sufficient level of accuracy in the following ways:

    a. Appropriate to the scope of measures and policy actions defined for a group of emission sources, included within a boundary, for example at the level of installations, sector/sub-sector, city- or nation-wide.

    b. Taking into account, and consistent with, the approaches and methods used for setting the baseline and crediting thresholds and/or trading caps, including the mechanism for baseline updating and adjustment;

    c. Consistent with and supporting the timely update of performance indicators established to monitor progress in the implementation of selected measures and policy actions;

    d. Established in a cost-effective and practical manner, taking into account existing accounting systems, institutional and regulatory arrangements, recognizing gaps and identified efforts for improvement;

    e. Ensuring consistency with the national MRV approaches or principles, as well as with the international emerging MRV processes under the UNFCCC;

    f. Allowing use of independent verification.

23. A common reporting format could be established to facilitate systematic collection and assessment of the practical experience gained or technical difficulties encountered under the prompt start phase. For example, it can reflect:

    a. The scope and coverage of a prompt start action and its related GHG impacts, including their relationship to the domestic mitigation goals and/or pledges;

    b. The selected market or non-market based measures and policy actions to achieve the targeted performance, including the appropriate incentive structure to facilitate public and private participation;

    c. The approaches to demonstrate that net emission reductions are achieved (e.g., see paragraph 20 above);

    d. The technical solution implemented to demonstrate that no double counting is occurring (e.g., through the established accounting principles or registries);

e. The key methodological choices relating to the baseline and crediting threshold/ trading caps setting;

f. MRV approaches including the use of identified performance indicators to monitor progress, as well as related institutional set-up;

g. Domestic institutional and governance arrangements and measures to ensure transparency of the national rules and procedures for the prompt start activities.

III. Accommodate for the prompt start mitigation actions at different scales and scopes under the new mechanisms to effectively complement and support domestic efforts in both developed and developing countries

24. Flexibility of the scale and scope means that actions that can be supported through the new mechanisms could include a wide range of sub-national, city-level or nation-wide measures and policy actions and can be covered by trading and/or crediting instruments. The choice of the instrument(s) will depend on the appropriateness to the particular circumstances, including economic, political, social and institutional considerations, as well as pre-existing policies and regulations with a direct or indirect impact on GHG emissions.

25. A broad definition of eligible measures and policy actions that recognizes particular circumstances would help to effectively channel international support toward the interventions that would have most "traction" at the national level. This would achieve real, sustainable impacts in terms of reductions and/or avoidance of GHG emissions.

26. A broad scope of eligible measures and policy actions could allow the carbon price signal to better reach various segments of the economy, for example, sectors that typically fall outside the scope of emission trading (e.g., transport, agriculture, land-use and sustainable infrastructure). This would also help the economy-wide discovery of mitigation opportunities and costs.

27. A flexible definition of the scope of action would allow for less capital intensive policies and incentive schemes that can achieve a maximum leverage of crediting instruments, compared to other capital-intensive options.

IV. A combined use of financing sources could increase efficiency and help raise the ambition through an optimized leverage of domestic and international, public and private finance

28. An increased ambition of climate action involves a stronger government role in shaping policies and instruments, taking into account potential distributional and social-economic impacts of such action. In order to reduce the overall costs of climate action, a combined use of market and non-market based policies and instruments would be required, reaching out to a broad spectrum of sectors and available options. An appropriate combination of policies would be designed, taking into account national circumstances and financing mechanisms. In this context, the combined use of financing sources should be supported, empowering governments to ensure the optimal use of available resources (while recognizing that markets shall be used, to the extent possible, to increase allocation efficiency).

29. The combined use of financing sources could also ensure maximum leverage effect and better allocation of risk (in particular between the public and private finance). To the contrary, a "separate"

treatment of carbon finance as an incremental financing stream may reduce the fungibility of this type of financing and reduce its leverage.

30. Accounting and allocation principles should ensure transparency, but not necessarily prescribe approaches in terms of allocating the impact of action to different sources of finance. It may not be practical to define uniform rules of allocation, in particular when different policies and instruments co-exist and have overlapping effects on the mitigation outcome. For example, the typology of "main" versus "supportive" policies may lead to the situation of perverse incentives where only the first instrument gets the rewards.

31. To support the development of consistent accounting principles for a combined use of financing sources, it is important to recognize the difference in purpose and nature of reporting approaches. International financial support, e.g., through climate finance, will have a different approach compared with the international flow of carbon assets, used for compliance purposes.

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