The World Bank Group Submission on the New Market-Based Mechanism

1. The World Bank Group welcomes the opportunity to make a submission to the Subsidiary Body for Scientific and Technological Advice (SBSTA) call for inputs on the modalities and procedures for the new market-based mechanism (NMM), made at its 40th session (FCCC/SBSTA/2014/L.12, paragraph 6). The submission builds upon and complements the earlier submissions by the World Bank Group made in 2012 and 2013. The World Bank Group is also makings a submission to the SBSTA call for inputs on a framework for various approaches (FVA) made at its 40th session (FCCC/SBSTA/2014/L.10, paragraph 6).

2. The submission starts with the summary of the main recommendations, followed by a detailed description of the underlying elements for these recommendations in two parts: (1) rationale and implications of placing the work on the NMM modalities and procedures (M&P) in a broader context of international cooperation on climate actions; and (2) observations on the need and ways to stimulate early actions under the NMM through a prompt start phase. The World Bank Group would be pleased to elaborate further and contribute to this important work as needed.

SUMMARY OF THE MAIN RECOMMENDATIONS

3. ***Place the work on the M&P of the NMM in a broader context of international cooperation on climate actions****, in particular, given the perspective to continue and broaden the use of existing/reformed market-based mechanisms of the Kyoto Protocol (KP) (Clean Development Mechanism (CDM), Joint Implementation (JI) and International Emissions Trading (IET)) and a FVA under development[1]. The main principles and technical elements for market-based instruments are sufficiently common to explore the possibility to benefit from the existing infrastructure created at the national and international levels (e.g., for greenhouse gas (GHG) emissions accounting, monitoring, registry, tracking, and verification systems).*

4. ***Stimulate early mitigation actions to gain experience, maintain and improve market infrastructure.*** *Prompt start mitigation actions under the NMM should be stimulated by providing a prospect for the resulting emission reductions (ERs) to be internationally recognized and used for compliance purposes. A prompt start phase would allow experience to be gained early on and to ensure that domestic and international institutional capacity including the market infrastructure under the flexibility mechanisms of the KP is maintained and further improved, in particular in terms of GHG accounting, registry, tracking, and verification systems.*

[1] Please see the World Bank Group complementary submission to the SBSTA call for inputs on a Framework for Various Approaches (FVA) made at its 40th session *(FCCC/SBSTA/2014/L.10, paragraph 6)*.

5. ***Allow inclusive participation and flexible eligibility requirements for the NMM.*** *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[2] or reform of fuel pricing, - to effectively complement and support domestic efforts.*

6. ***Define international guiding principles for early mitigation actions under the NMM.*** *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.*

7. ***Facilitate combined use of financial sources to increase efficiency.*** *Future criteria and procedures for the NMM should support a combined use of financing sources to increase efficiency and therefore to help raise the overall mitigation ambition.*

I. NMM IN A BROADER CONTEXT OF INTERNATIONAL COOPERATION ON CLIMATE ACTIONS

8. The World Bank Group considers it important to place the work on the M&P of the NMM in a broader context of international cooperation on climate actions, in particular, given the perspective to continue and broaden the use of existing /reformed market-based mechanisms of the KP (CDM, JI and IET) and a FVA under development[3].

9. Further, the main principles and technical elements for market-based instruments are sufficiently common to explore the possibility to benefit from the existing infrastructure created at the national and international levels (e.g., for GHG accounting, monitoring, registry, tracking, and verification systems).

10. The use of the market-based mechanisms (IET, CDM and JI) during the first commitment period of the KP allowed better understanding of successes and limitations of the first generation of carbon markets, at different levels, including national, regional and international[4]. In particular, the regulatory and political risks have had strong impact of on the attractiveness of international

[2] Carbon tax is putting price on carbon while leaving flexibility on how to achieve emission reductions. Therefore, from the economic point of view it is considered as a market mechanism (e.g., as compared to the command-and-control approach).

[3] With regard to the FVA, please see the World Bank Group submission to the SBSTA call for inputs on a framework for various approaches (FVA) made at its 40th session *(FCCC/SBSTA/2014/L.10, paragraph 6)*.

[4] With regard to the afforestation and reforestation (A/R) activities, in particular, the use of temporary credits to address the risk of non-permanence led to significant limitations. Alternative approaches under consideration of the SBSTA in this regard could be considered as part of the M&P of the NMM to ensure common crediting approach.

market-based mechanisms for public and private investors. The NMM could establish an improved model by exploring ways to reduce these risks through measures in the M&P to increase predictability and objectivity.

11. The M&P of the NMM could help provide regulatory predictability by giving appropriate consideration of the underpinning fundamentals such as energy, economic policies, and international competition. The M&P could, for example, include provisions for pre-defined adjustments in case of unforeseen changes in activity levels (e.g., drastic economic downturn), for example through the use of dynamic baselines or their periodic revisions. This should ensure, for instance, that no creditable ERs should be originated from the reduction of economic activity only.

1. A balance between international oversight and national implementation

12. Ensuring environmental integrity of a variety of international cooperative mitigation actions should steer the oversight by the United Nations Framework Convention on Climate Change (UNFCCC). The M&P should establish predictable rules and procedures seeking to strike a balance between international oversight and national implementation. 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.

13. The *international oversight* should be focused on maintaining the integrity of the mechanism through the assessment, monitoring and enforcement of the conformity to the overarching NMM guidelines of: (i) the national implementation, and of (ii) the services provided by the Independent Entities (AIEs) accredited at the national and/or international level. This approach could help to avoid duplication of roles and a spiraling of regulatory risks for investors. To further reduce political risks, the governing body should maintain a strategic and policy-making function whilst delegating administrative responsibilities to the full-time bodies/panels under its authority (e.g., relating to the functions of accreditation and international registry).

14. The *national regulatory and implementation functions* should cover the design and implementation that most effectively reflect the national circumstances. For instance, given the critical impact of the national economic, institutional and legal frameworks to stimulate low carbon investment, the national regulator should play a decisive role in structuring the most appropriate and effective incentives for participation of public and private investors in the NMM. International cooperation during the early phase could help national regulators to shape such incentives through the use of market-based mechanisms.

15. To improve the overall efficiency and social acceptability of scaled-up international transfers via the NMM, the M&P should allocate sufficient flexibility to the national implementation in defining complementarity of other policies and sectoral priorities for the use of the NMM. The M&P should invite participating countries, from both supply and demand sides of the market, to ensure transparent, timely sharing of information on any (sub-)sectoral priorities in terms of using the NMM. This could help steer carbon finance toward targeted areas by complementing a natural

function of the markets to allocate resources based on emission reduction cost minimization. For the host countries, in particular, this could help enhance the contribution of the NMM to achieving national goals. This information could also help reduce political and regulatory risks, both for public and private investors.

16. The development of the criteria and procedures of the NMM should aim to support coherence between different approaches, to the extent possible, while ensuring flexibility and incentivizing prompt start actions. Given that the NMM is to be developed within an uncertain architecture of the future global agreement, a prompt start phase would allow experience to be gained early on and to ensure that currently available institutional capacity, including the market infrastructure under the flexibility mechanisms of the KP, can be maintained and further improved, in particular in terms of accounting, registry, tracking, and verification systems.

2. Facilitate combined use of financing sources to help increase efficiency and raise the mitigation ambition

17. An increased ambition in 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).

18. 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.

19. 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.

II. STIMULATE EARLY ACTIONS UNDER THE NMM THROUGH A PROMPT START PHASE

1. Observations from the potential early mitigation actions under the NMM

20. The World Bank Group has been in dialogue with several developing countries in view to assist them in exploring, designing and potentially supporting early mitigation actions under the NMM[5].

21. Some preliminary outcomes of this ongoing dialogue could help to inform the work program on M&P of the NMM and illustrate different interpretations of the key features of the NMM that are observed at the national level. More specifically, this could contribute to defining the concept of "*broad sector of the economy*" under the NMM, and the meaning of "a *net decrease /avoidance of GHG emissions" (net reduction)*. Building on these preliminary outcomes, the suggestions in terms of defining international guiding principles for early mitigation actions in the M&P of the NMM are described in the Section 2 below.

22. Table 1 below summarizes several key features of potential scaled-up mitigation initiatives such as selected sector and scope of eligible measures, participants/target group, target setting approach and definition of the net reduction, role of carbon/climate finance in the incentive structure, and the MRV approach. Two of these early initiatives are in the power sector with a focus on renewable power generation, three programs cover nation-wide cement sector, two initiatives relate to GHG mitigations in cities (with different sectoral coverage), and one initiative is supporting the implementation of energy pricing reform (policy-driven mitigation).

23. The initiatives presented below are characterized by *different levels of novelty* as compared to the existing approaches under the flexibility mechanisms of the KP: from a programmatic model on the one hand to a purely policy-driven mitigation on the other hand (please also see section 2.1 below).

24. For the former, at least in a piloting phase, the infrastructure of the existing KP instruments (or its specific tools) could be sufficient without requiring major modifications. This is particularly relevant in terms of accounting, registry, tracking, and verification. The approaches suggested for baseline quantification and MRV (in particular in the power sector), largely rely on approaches and national infrastructure established under the KP. For the latter, more substantial effort may be required at the level of M&P elaboration to build consensus about their environmental integrity and acceptability under the NMM.

[5] Several of these countries are the Implementing Countries of the Partnership of Market Readiness (PMR) led by the World Bank Group. More detailed observations on the crediting initiatives in these countries are reflected in the World Bank Group submission on a FVA. Other countries are actively pursuing national GHG mitigation strategies and consider, in the future, gaining support from international climate and carbon finance.

Table 1. Key features of potential scaled-up mitigation initiatives.

(Sub-) Sector	Scope of measures	Participants/ Target group	Role of carbon/climate finance in the incentive structure	Target setting for the broad segment of the economy	Net reduction approach	MRV approach
Power sector	Renewable energy (RE) new generation capacities	Both public utility and private investors to finance underlying investment and operate new capacities	Carbon revenues would be applied to support risk enhancement and extending loan tenure to help overcome financing barriers or to subsidize payment for preferential feed-in-tariff	Existing national targets in terms of annual growth and total share of RE in the national energy mix by 2024	Crediting baseline is considered to be set between the baseline (reflecting barriers to achieve the targets) and program scenario	Use of existing and improved MRV approach that is providing annual grid emission factor
Power sector	RE new capacities	Public utility to finance, implement and operate new capacities. Private investors to install and operate selected types of new capacities	Carbon revenues would be applied to support the use of preferential feed-in-tariff for selected types of RE to incentivize private sector participation	Existing national target of electricity coverage and GHG ERs by 2020.	Crediting baseline is considered to be set between the baseline (reflecting barriers to achieve the targets) and program scenario	A sector-wide MRV system using the exiting grid EF and new MRV components for electrification rates and fuel mix of the isolated mini-grids
Energy sector	Fossil fuel price reform, focusing on coal price and electricity tariff	Influence investment and consumption patterns in response to the fossil fuel pricing reform	Carbon revenues would provide financial support to increase the ambition of pricing reform and support its implementation costs	Introduction of market-based pricing for fossil fuels and cost recovery approach for electricity generation	Crediting only of ERs attributable to a more ambitious energy pricing reform as compared with the ongoing policies	National-scale, policy-based MRV including ex ante estimation and the MRV of ex post policy mitigation impact
Sustainable Urban Communities	New housing, public lighting, water and waste management, small-scale renewable energy	Private developers, ESCOs and PPPs for municipal services to access federal dedicated financial resources	Climate/carbon finance will complement national sources to provide incentives to developers and community dwellers through supplemental/ preferential loans eligible for the incremental costs of higher community-based GHG performance	National performance targets for sustainable communities are to be developed as a part of the program	To be defined. Potentially, it would target acceleration of the market penetration rate of the program, and consider the potential to go beyond national performance targets	Community-based aggregate monitoring of energy/emission performance and of market penetration rate of the program
Low Carbon Cities	All urban sectors (energy	Over 2000 municipalities and	Dedicated governmental fund to be established to provide	National targets for low-carbon development	To be defined	MRV on project level

	efficiency, renewable energy, SWM, transport, forestry and green area, and agriculture)	local communities	consolidated support to the municipalities, inter alia, to identify sources of debt-financing, and provide carbon finance	(with implications at the municipality's level)		
Cement sector	Cement plants at the national level	Large and medium-size private companies	Use existing tradable performance scheme or establish a crediting scheme to help achieve emissions targets	National targets for reducing cement sector emissions intensity by 2050	Crediting of performances beyond current national sectoral targets	To be defined. Installation-level MRV could be used
Cement Sector	Cement plants at the national level	All the companies that constitute the national cement sector	Carbon revenues, generated through the implementation of a sectoral crediting program, would leverage low carbon investments and help achieve voluntary ER targets	To be defined. Currently, each cement group has voluntary ER targets	To be defined. The definition of net reduction is an integral part of the process to set the crediting threshold	Installation-level MRV could be used
Cement Sector	Cement plants at the national level	All the companies that constitute the national cement sector	Access to dedicated sectoral credit line and investment funds conditional to the level of performance in terms of GHG ERs	Sectoral target to reduce specific carbon intensity by about 20% in 2020	Sectoral crediting approach, as well as net mitigation approach yet to be defined	Installation-level MRV

25. The interpretations of the terms "*broad segment of the economy*" and "*scale*" in the suggested initiatives also vary extensively, as well as the approach for target setting for the underlying programs/policies:

    a. In the *power sector*, the scope of the initiative is narrowed down to a particular energy source (e.g., non-conventional renewable energy) for which a specific target is expressed as a share of total (sub-) national electricity generation or for the isolated power grids.

    b. In the *cement sector*, the entire sector is targeted in cases where the total number of companies operating in the country is quite limited. The target is defined, for example, in terms of carbon intensity of cement production, but not specifically limiting the total amount of emissions. The relative targeted setting also has to accommodate the expected increase of sector's production capacity.

    c. In *city-focused initiatives*, the eligible activities could belong to different sectors of urban economy, from buildings to a full range of municipal services. The definition /attribution of specific targets from national/sectoral level to the sub-national level is more complex. In several instances, the suggested approach is based on the definition of benchmarking indicators and/or other performance indicators with different level of aggregation (e.g., at the community level).

    d. The *policy-driven initiative* supports the fossil fuel price reform aiming at the introduction of market-based pricing for coal in the power sector and establishing of cost recovery approach for electricity generation (e.g., elimination of subsidies). Through its impact on the investment and consumption patterns, this sector-wide initiative would contribute to the reduction of carbon intensity of power generation.

26. The approaches suggested to demonstrate the *net reduction* are very closely related to the definition of the baselines and target setting and often not yet addressed at this early stage. This is an important distinctive feature of the NMM that would need to be defined as a function of national circumstances and would tend to be very country-specific. We discuss net reduction in some more detail in the Section 2.2 below.

27. Each mitigation initiative has its specific approach to define targeted emitting entities and/or final energy consumers, as well as the role of carbon/climate finance in the incentive structure. These elements are critical to the ability of the NMM initiatives to incentivize sustainable participation of both public and private investors and should largely remain in the area of national implementation. Innovative approaches may be required to improve the effective leverage and incentivize low carbon investment through the NMM (in particular, given that for some scaled-up mitigation initiatives, the direct contribution of carbon finance may be of a limited extent). The early actions under the NMM could provide useful testing ground for such innovative leveraging/incentive models.

2. International overarching principles for the prompt start activities

28. Establishing a prompt start phase for the NMM could be a 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.

29. The prompt start phase should provide a prospect 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.

30. The prompt start phase should be inclusive in terms of participation requirements, allow cooperation within developing countries, as well as within developed countries (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 ERs, including but not limited to the use for compliance against a pledge or target in another country.

31. 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.

2.1. Mitigation actions at different scales and scopes

32. Flexibility of the scale and scope means that actions that can be supported through the NMM 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.

33. 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.

34. 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.

35. 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.

Policy-based mitigation as eligible source of emission reduction under the NMM

36. With sound design and implementation, policy instruments including energy pricing reform (e.g., electricity tariff reform and use of feed-in tariff policies), removal of environmentally harmful subsidies, and carbon taxes can result in ERs economy-wide, for broad segments of the economy, or at sub-national levels. Such policy actions can also help to correct existing market distortions, have a positive impact on sustainable development, and provide the right price signals to the private sector, thus leading to more efficient allocation of resources and new and greener investment.

37. Policy-based mitigation should be explicitly defined as eligible sources of ERs under the NMM. The inclusion of policy actions could increase the scope and coverage of the mechanism and its relevance to meeting the two-degree target. ERs resulting from increased ambition of policies such as energy pricing reform, phasing out of fuel subsidies, and carbon pricing policies can be credited/rewarded through international support against measurable and verifiable policy progress and outcomes.

38. To ensure environmental integrity, comparability, and transparency of ERs from policy actions, the M&P for the NMM could consider the need to establish the minimum technical requirements to accommodate policy actions. For instance, appropriate ex-post modeling frameworks could be necessary to measure and attribute policy impacts on GHG emissions. The guidance on the approaches to minimize uncertainties associated with GHG impact of policies could also be developed.

2.2. Internationally approved rules and provisions for prompt start actions

39. 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 ERs, transparency and common rules for information sharing on the practical experience gained or technical difficulties encountered under this phase.

40. The prompt start phase rules and provisions could also contain an evolving set of non-mandatory standards, including for implementation by host Parties. These standards would reflect the emerging best practices under the prompt start phase, 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.

41. 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.

42. The baseline (reference level) setting, the definition of crediting threshold/trading cap, the approaches to achieve net ERs, as well as MRV approaches are critical to ensure the environmental integrity of mitigation actions. The relevant elements of the work program are discussed below. More details on these elements are provided in the World Bank Group submission on a FVA that describes the suggested generic building blocks for the design and implementation of market-based instruments.

Baseline setting

43. 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[6]. 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 activity levels (i.e., to ensure that ERs cannot be earned for decreases in activity levels).

44. 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* and therefore should be considered as demonstrating additionality in an appropriate and sufficient way.

[6] For example, the principles outlined in the guidelines and procedures on the submission of forest reference emissions levels and/or forest reference and their technical assessment (Decision 13/CP.19) could provide useful insights for the future work on the M&P of the NMM on how to create uniform guidelines and procedures for baselines (reference levels) for other broad segments of economy.

Net reduction/avoidance of GHG emissions

45. The concept of net mitigation is one of the key distinctive features of the NMM as compared to other instruments of international cooperation, including the flexibility mechanisms of the KP. It reflects some support internationally to go beyond offsetting in the uncapped environment toward a more conservative, restricted transfer/use of ER units, below the (verified) emission reduction amounts from the underlying mitigation/avoidance activities.

46. Given the importance of the *net reduction* to the rationale of the NMM, sound guiding principles should be established at the international level for the demonstration/quantification of net reduction. These principles should recognize that net reduction will have to be defined as a function of key national circumstances and would tend to be country-specific. The approaches to the *net reduction* is interlinked and should be consistent with the approaches used to define the baselines, target setting and establishment of crediting thresholds (if applicable).

47. The concept of net reduction can be made operational in different ways/forms, for example: (i) limited issuance at the source of generation; (ii) restricted use/discounting at the point of use; (iii) through limited crediting period or progressively decreasing share of creditable ERs; or (iv) through setting of crediting thresholds below the baseline.

48. Additional analytical effort is required so to systematically assess pros and cons of different options, including but not limited to those mentioned above. It is necessary to define the key criteria for selection, applicability, practicability and implications of each approach on the level of ambition of the mechanism as a whole and on its attractiveness to the participating country.

49. The share of net reduction will be a function of several factors such as economic development, structure of the national economy, the relative emission intensity in key sectors, incentives needed and the available emission reduction potential. It will strongly depend on specific national context. Therefore, different national circumstances and technical solutions should be envisaged. For example, the resulting crediting thresholds/trading caps and an acceptable level of stringency should be defined by the Parties involved.

Monitoring, reporting and verification

50. 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[7];

f. Allowing use of independent verification.

51. Possible approaches to the accounting of *indirect emissions* within the sectoral boundary or at the level of other sectors need to be clearly identified. The selected approach has to be consistent with the methods used for relevant sectors in the national GHG accounting to avoid double reporting of ERs.

52. A common reporting format could be established to facilitate systematic collection and assessment of the practical experience gained or to identify 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 ERs are achieved (e.g., see paragraph 47 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.

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[7] For example, principles outlined in the guidelines and procedures on the modalities for MRV of REDD implementation activities (Decision 14/CP.19) could provide useful insights for the future work on the M&P of the NMM for other broad segments of economy and help ensure uniformity of MRV approaches.