Climate finance and carbon pricing: synergies and opportunities for ASEAN Member States

Technical Workshop on Climate Finance in ASEAN

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Background

- **Carbon pricing** consists in the setting of a price on GHG emissions (expressed in monetary unit per tCO_2e) to curb emissions and foster a switch to low carbon solution/practices

- Two main ways of explicitly putting a price on emissions: **emissions trading** and **carbon taxation**; hybrid instruments also exist

- Requires two main elements: quantification of emissions (MRV) and a price setting mechanism

- As of April 2019, there were **57 carbon pricing systems** either in place or scheduled for implementation around the world, covering **approx. 20% of global GHG emissions***

- Among **ASEAN Member States**, at least 5 jurisdictions have been considering carbon pricing instruments, with one (Singapore) starting implementation in 2019

* Source: World Bank, 2019

Linkages among climate finance and carbon pricing

- While climate finance provides the means to the implementation of projects, carbon pricing provides the incentive to mobilize the most “cost-effective” mitigation options
- Carbon pricing can be a **source of climate finance**

  How?

  - With emissions trading: through the auctioning of allowances
  - With a carbon tax: through the tax levied
  - Revenues raised can be used for adaptation and/or mitigation activities (e.g. in the form of grants, subsidies, loans, loan guarantees, equity investment, payment for results-based finance, etc.).
  - A domestic climate fund could be set-up as both a recipient and distributor of carbon pricing revenues

- Carbon pricing can **unlock additional sources** of climate finance

Linkages among climate finance and carbon pricing

The linkages between carbon pricing and climate finance are becoming more recognized…

Coalition of Finance Ministers for Climate Action

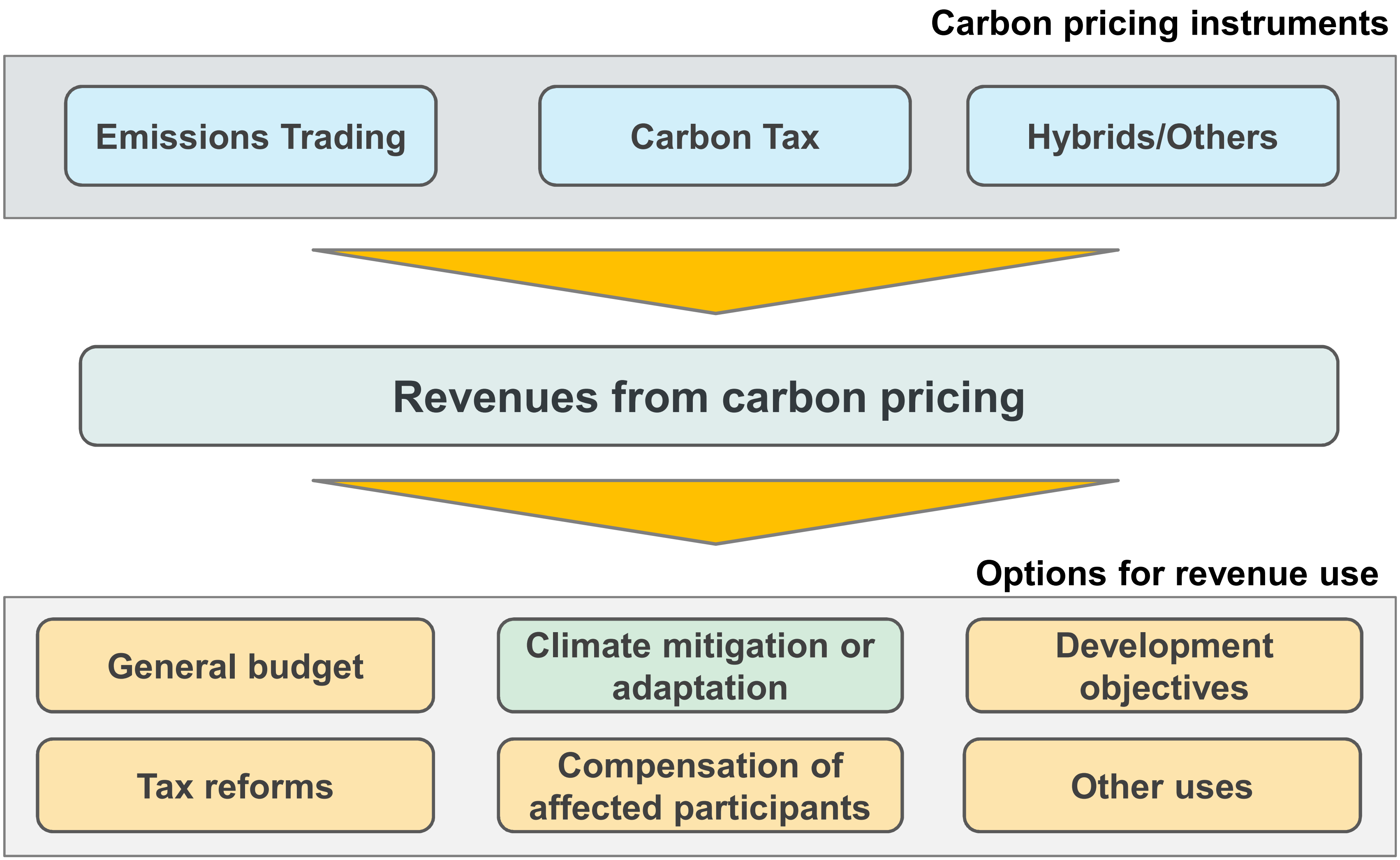
- Established in April 2019
- The Coalition endorsed the Helsinki Principles, which promote national climate action through fiscal policy and the use of public finance
- Principle 3 calls for the adoption of measures that lead to effective carbon pricing, in particular through the elimination of fossil fuels, taxation, emissions trading and regulation
- 39 countries have endorsed the Helsinki Principles

V20 – The Vulnerable Twenty Group

- Finance Ministers of the V20 committed to put in place on their jurisdictions carbon pricing mechanisms by 2025

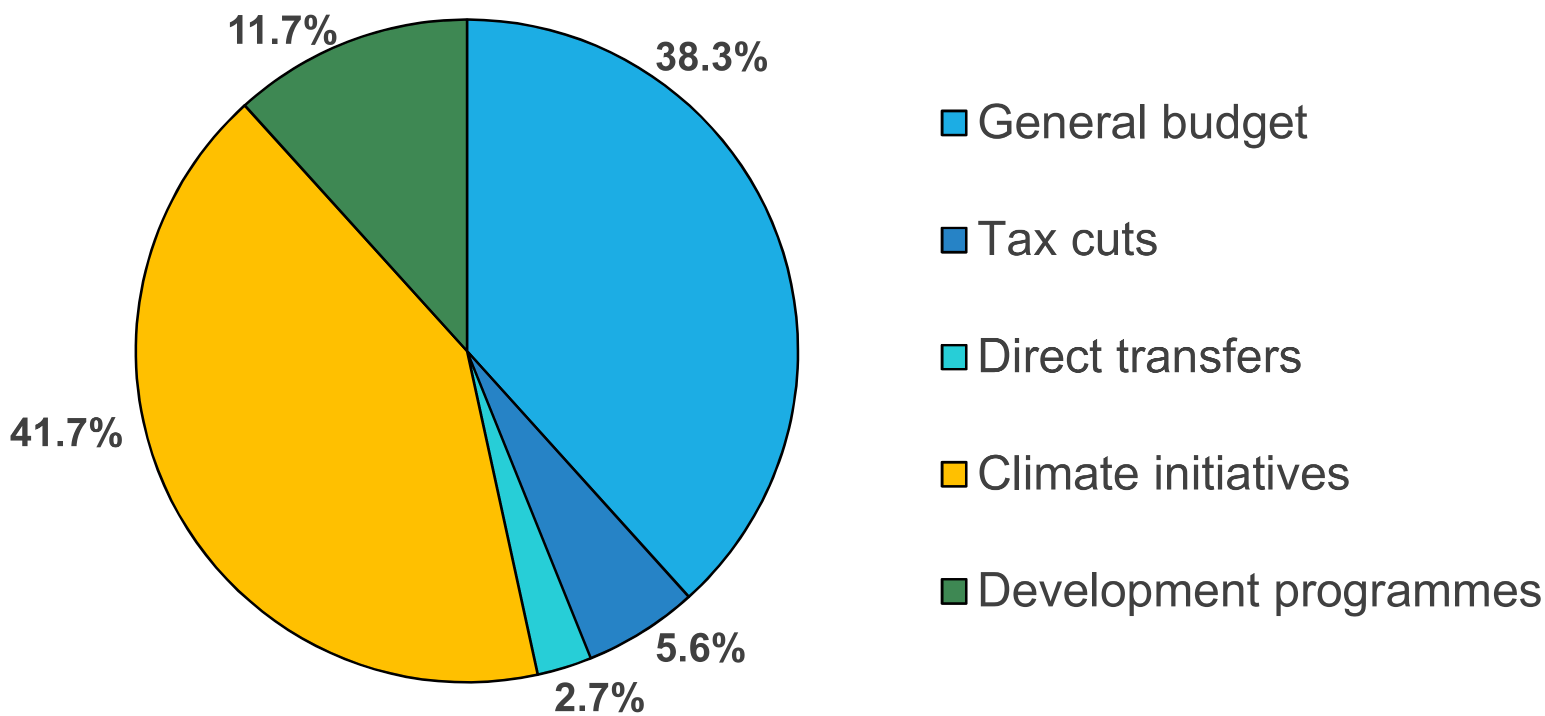
Linkages among climate finance and carbon pricing

There may, however, be conflicting options for the use of revenues generated from carbon pricing instruments…



Linkages among climate finance and carbon pricing

In 2018, revenues from carbon pricing instruments in operation worldwide have totaled 44 billion USD…



How should countries allocate revenues from carbon pricing, and how could they complement other sources of climate finance?

Source: World Bank, 2019

Examples from international experience on carbon revenue use

Country / Region	Feature of interest
 **European Union**	➢ Revenues from the EU ETS are directed to environmental and development objectives ➢ EU has legislation in place for member states to use at least 50% of revenues for climate-related projects
 **Colombia**	➢ Carbon tax effective since 2017 ➢ Carbon tax revenues used to pursue environmental and development objectives
 **South Africa**	➢ A carbon tax approved into law in 2019 ➢ Tax proceedings used for an energy efficiency savings tax incentive, installation of solar water heaters, energy access, etc.
 **British Columbia**	➢ Has in place an economy wide carbon tax ➢ Carbon pricing revenues account for ~3% of British Columbia's provincial budget

Climate finance and carbon pricing in the Paris Agreement

PA Goal (Article 2.a): to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels

Required to achieve…

Article 2.c): making **finance flows** consistent with a pathway towards low greenhouse gas emissions and climate-resilient development

Contributes to…

Article 9.1: financial resources are provided to assist developing country Parties with respect to both mitigation and adaptation

Enablers

Carbon markets

MRV

Article 6: Parties may opt for voluntary cooperation to implement their NDCs

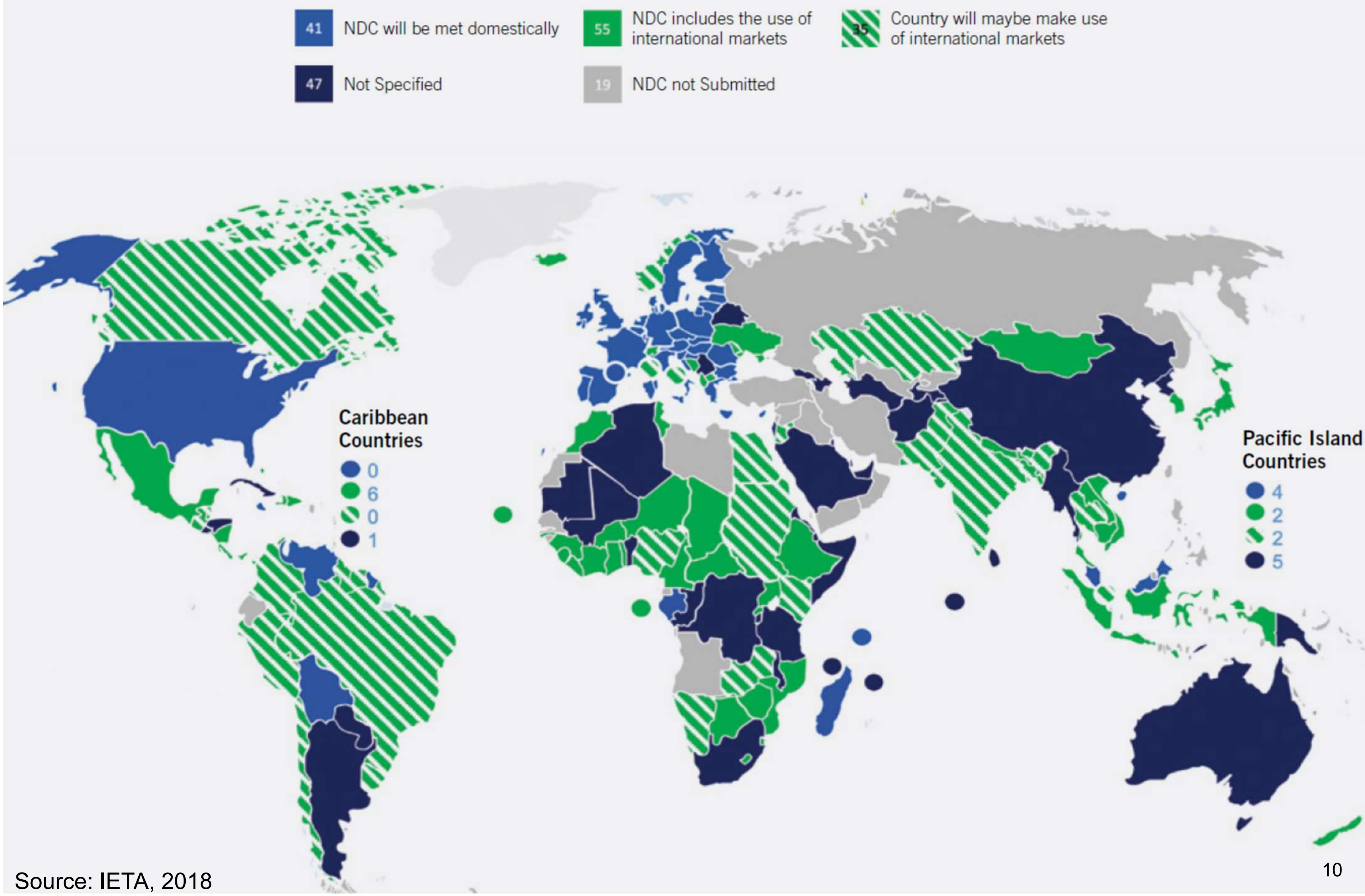
Article 13: Enhanced transparency framework

Article 6: the resurgence of carbon markets?

Article 6 of the Paris Agreement enables voluntary cooperation between Parties both through market and non-market based instruments

Article 6.2	Cooperative approach among Parties involving the use of **internationally transferred mitigation outcomes** (ITMOs)
Article 6.4	A mechanism to contribute to the **mitigation of GHG emissions** and support **sustainable development**
Article 6.8	**Non-market approaches** to assist countries in the implementation of their NDCs

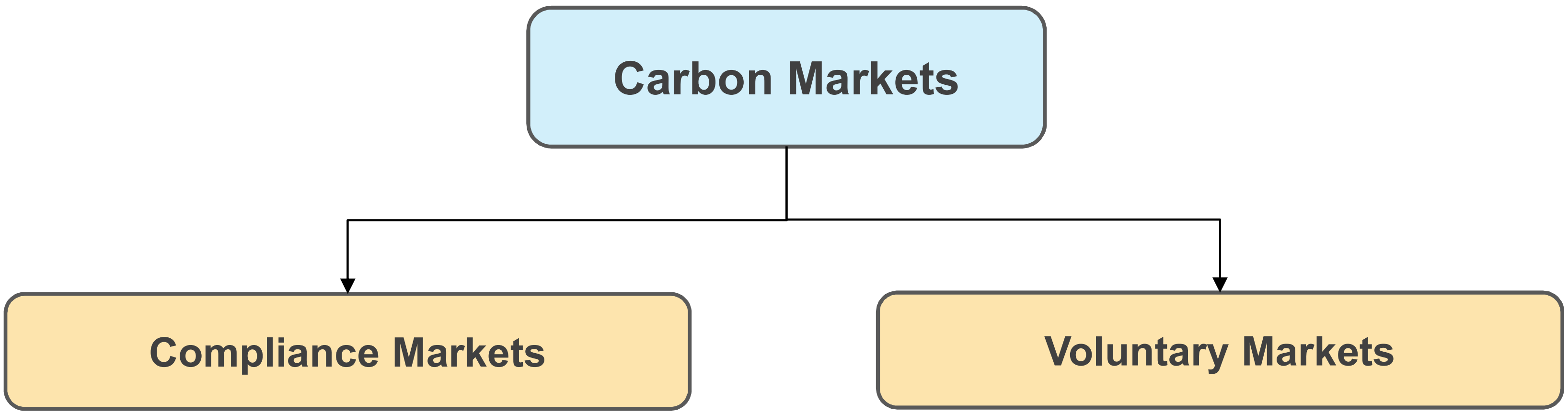
Parties reference to the use of market-based instruments on their NDCs



Source: IETA, 2018

Carbon markets: an overview

A price on carbon emissions is a necessary condition for the existence of carbon markets…



Compliance Markets

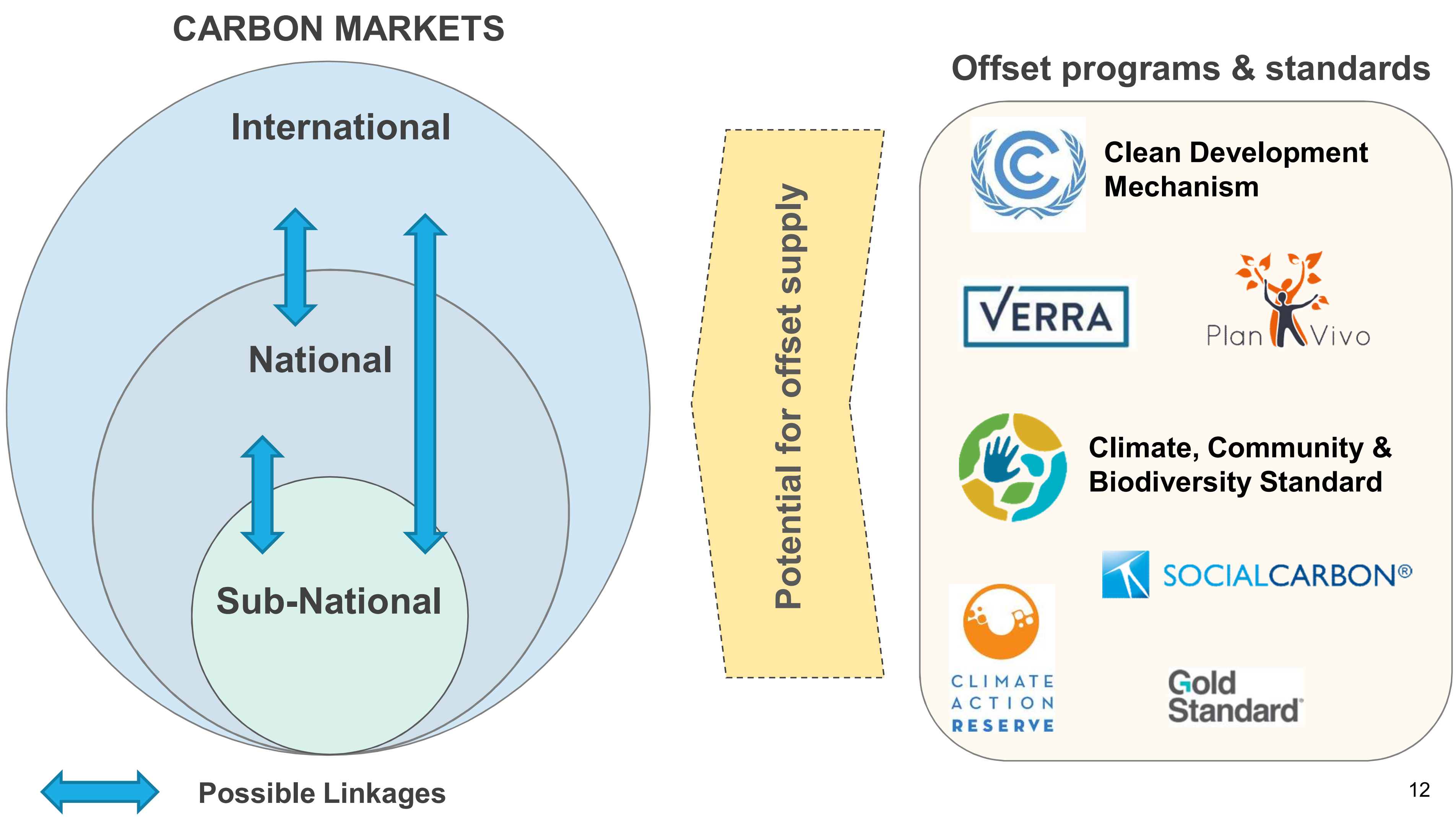
- Created and regulated by mandatory GHG emission reduction regimes
- Regulated entities obtain and surrender emission permits (allowances) and/or offsets to meet emission targets set by regulation

Voluntary Markets

- Based on the existence of voluntary demand for emission reductions
- Demand usually driven by CSR and anticipation of obligations under compliance schemes
- Several standards exist for quantifying voluntary emission reductions

Carbon markets: an overview

Carbon markets can differ in scope, and allow the trade of credits either in the form of permits or offsets…



Carbon markets and climate finance

- Carbon markets can support **leveraging additional sources of climate finance**
  - The CDM led to investments of more than 300 billion USD in emission reduction projects
  - Many CDM projects leveraged several times their volume in carbon finance in the form of private sector investment
- Revenues from carbon markets need to be **complemented by other sources of finance**:
  - As payments usually occur “ex-post”, carbon markets are unable to directly address upfront financing barriers
- An international carbon market could enable emissions to be reduced where it is least costly to do so:
  - Could generate large flows of carbon revenues to developing countries with lower mitigation costs.

Carbon markets and climate finance

Illustrative

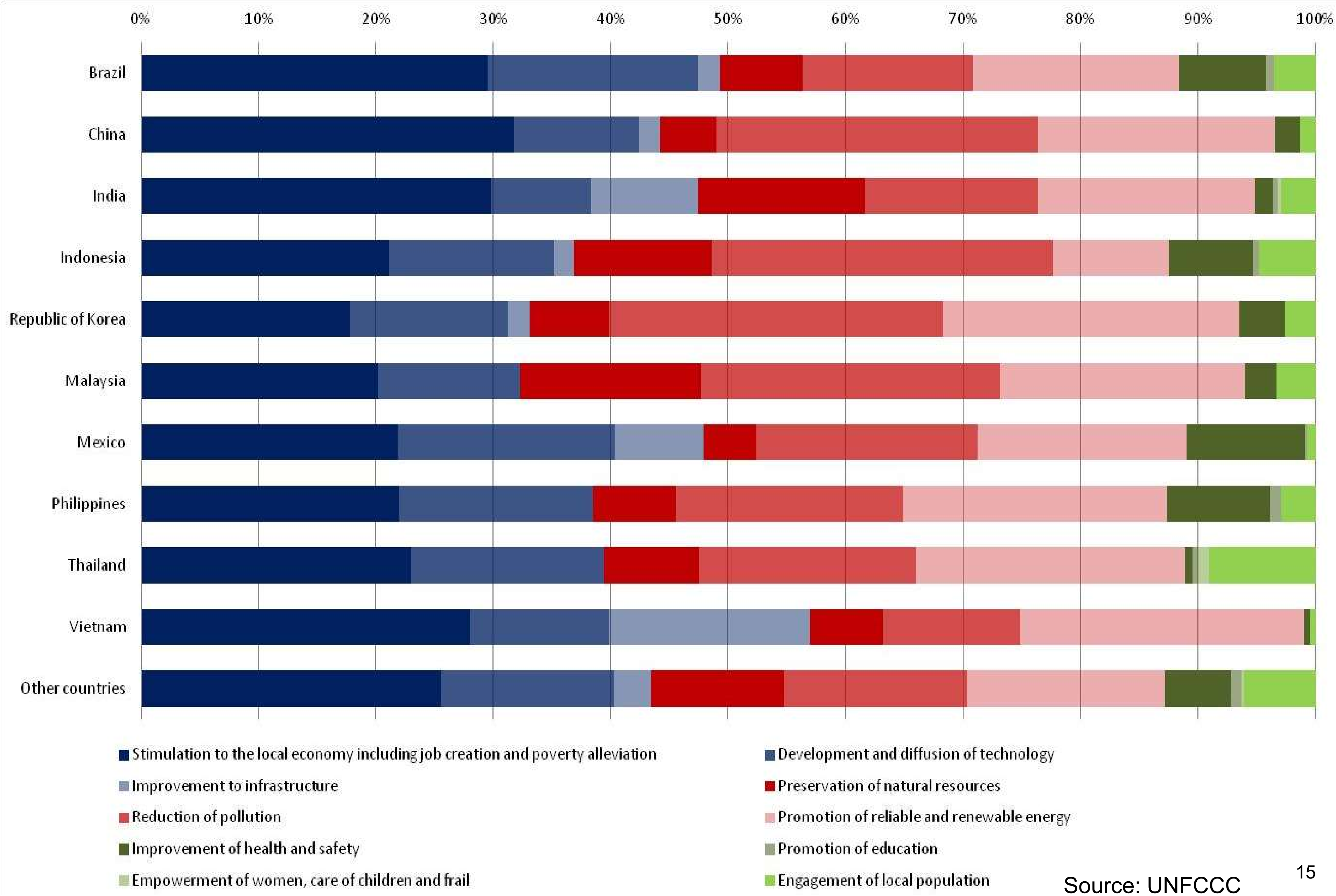
Climate finance can be an enabler of carbon finance, as attested by the experiences of MDBs as well as public and private funds

Ci-Dev
CARBON INITIATIVE FOR DEVELOPMENT

- A trust fund of the World Bank that aims to mobilize private finance to support clean energy access in low-income countries, all developed through the CDM
- The fund has a pipeline of 12 energy access projects in sub-Saharan countries
- Mobilization of private finance of 250 million USD, with 76 million USD in payments by the fund for emission reduction units
- Purchase of emission reduction units significantly above market prices
- Strong sustainable development benefits of the projects ("co-benefits)

Source: World Bank

The potential for co-benefits with carbon finance: the CDM case



Source: UNFCCC

Implications for ASEAN Member States

Climate Finance — **Climate Investments**

Sources & intermediaries
- Central and local governments
- Public financial inst.
- Commercial banks
- Financial markets
- Private companies
- Individuals
- **Carbon markets & carbon pricing**

Financing Instruments
- Grants, subsidies and cash transfers
- Commercial debt
- Concessional debt
- Bonds
- Equity
- Own funds
- Blended finance
- Others

Investment Devices
- Central and local governments
- Private sector
- Public private partnerships (PPPs)
- Special purpose vehicles (SPVs)
- Households
- Others

Climate Investments
- Energy efficiency
- Renewable energies
- Sustainable infrastructure
- Disaster risk reduction
- Adaptation
- Resilience
- Education and training
- Others

Implications

What economic sectors to regulate under carbon pricing and what price should be set?

How can carbon pricing articulate with other existing fiscal instruments?

Should revenues raised from carbon pricing instruments be made available to climate investments through specific instruments or devices?

Should revenues from carbon pricing instruments or carbon markets be earmarked to specific investments?

Opportunities for regional collaboration within ASEAN

- Consider further exploring opportunities for climate finance through carbon markets, both domestically and/or internationally:
  - Based on Member States experiences on market-based instruments
  - Should be carried out in articulation with developments under Article 6
- As a mid to long term vision, consider the potential for establishing a regional carbon market in ASEAN:
  - Could enable harnessing GHG abatement opportunities at the lowest cost
  - Would address concerns over competitive distortions among jurisdictions
- Build capacities and consider coordinated approaches on “no-regrets” elements required to implement the Paris Agreement, in particular on MRV of GHG emissions and MRV of finance

Thank you for the attention!

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